

# Quarterly Update

Q3 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 three and five years the Fund was the top performing balanced fund with an annualised total return of 10.4% and 14.4% respectively and dropping to second over one year<sup>1</sup>
- Average out performance of 4.0% p.a. over 5 years and 5.2% p.a. since inception against the MSCI benchmark<sup>1</sup>
- Annualised distribution yield of 5.4%<sup>1</sup>
- Investor interest in due diligence c.£30–50m

<sup>1</sup> Source: AREF/IPD All Balanced Property Fund Index – to 30 September 2018.



## Market Outlook

As we approach what hopefully will be some form of resolution to the Brexit debate, we sense the corporate and market desperation for certainty. Whilst we have significant investor interest in the fund at present, the minority are moving onto the primary market with many others still pushing back their investment decisions.

Within the real estate market we continue to see very poor returns from retail property which contrast with those from our business space assets. We are using this as an opportunity to rotate out of some smaller retail assets in the regional markets and start to reinvest in south east locations with much more potential for value enhancing alternative use over time. This process results in the fund holding a little more cash and incurring some transaction costs which have depressed the fund's return and distribution yield this quarter. These adjustments we anticipate will increase the distribution yield and hopefully achieve relatively high risk adjusted returns going forward.

We continue to see a number of attractive long term opportunities in the business space and leisure markets.

## Performance

Investment Performance %	3 mths	6 mths	9 mths	1 yr	3 yrs	5 yrs
AEW UK Core Property Fund	1.8	5.4	8.0	11.8	10.4	14.4
Weighted Average	1.6	3.6	5.5	8.8	7.1	10.4
Upper Quartile	1.8	4.4	6.9	10.5	8.5	11.5
Median	1.6	3.8	6.0	9.6	7.4	10.9
Lower Quartile	1.4	3.4	5.4	8.3	7.0	9.9
Funds in Index	26					

Source: AREF/IPD All Balanced Property Fund Index – to 30 September 2018.

## Q3 Acquisition

### The Kursaal, Southend

- Prominent landmark and listed building on Southend's main leisure pitch
- Well established South East leisure destination
- Over 10 years weighted letting expiry
- Attractive yield (7.8% NIY) and low capital value per sq ft (£56 psf)
- Prominent location



## Q3 Asset Management

### Weston Road, Crewe

In May, Bargain Booze went into administration. The Administrator then unlawfully granted Bestway a licence to occupy, allowing the business to continue operating from the property. Having put the Administrator on notice to terminate the licence and forfeit the lease, we successfully agreed an assignment to Bestway, a much stronger tenant.

### St Mary's Square, Swansea

We have completed a new 5 year lease to New Look which secures the occupation of the unit for a further 5 years in a demand constrained market. The site provides access for a Council promoted retail and leisure scheme.

### Kayley Industrial Estate, Manchester

Our recent purchase of this property has led to a busy time for the team. We have completed £152,740 p.a. of lettings and renegotiations over the past quarter and have a further £205,000 p.a. deals in solicitors' hands.


### Dunkinfield freehold acquisition

We have acquired part of the freehold from the Council.

### St David's Retail Park, Swansea

We have built a 1,800 sq ft drive-thru pod development let to a Starbucks franchise on a 15 year FRI lease at a rent of £58,500 pa (£32.50 psf). The pod improves the overall retail offering and secures the location's future as a retail/leisure destination.



<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> £278.3m	
<b>Triple net initial yield (% p.a.):</b> 6.77%	
<b>Reversionary Yield:</b> 8.12%	
<b>Reinvestment:</b> Yes, quarterly	
<b>Number of investors:</b> 47	
<b>Number of AEW employee investors:</b> 4	
<b>Number of properties:</b> 66	
<b>Number of properties under offer:</b> 2	
<b>Gearing (% of NAV):</b> 2.69%	
<b>Total expense ratio:</b> 1.12%	
<b>Capital Cash holdings (% of NAV):</b> 8.68%	
<b>Single price</b> NAV price – £1.3182 Single price – £1.4078 For historical pricing please see <a href="http://www.aewuk.co.uk">www.aewuk.co.uk</a>	
<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.	

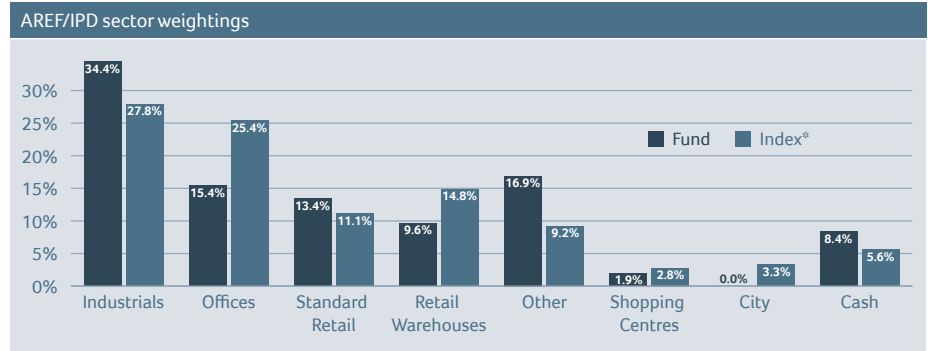
## Q3 Disposals

### Southam

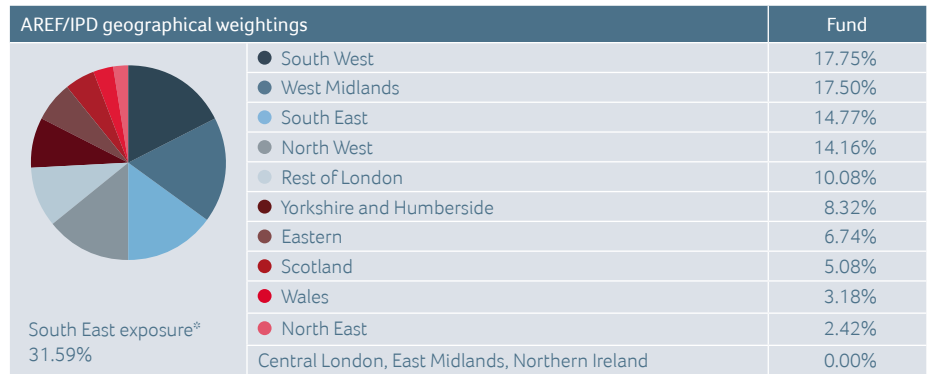
- 65,226 sq ft modern manufacturing and distribution unit
- Acquired in November 2012 for £2.0m and let to Adare Precision
- Sold for £6m (£91 psf) to a local packaging business

### Radlett

- 40,777 sq ft office building on Watling Street in Radlett, Hertfordshire
- Acquired in December 2012 for £3.8m
- Comprises combination of office, production and storage accommodation alongside 123 car parking spaces
- Let in its entirety to Alstom Transport UK Limited.
- Sold for £9.8m, reflecting 5.5% NIY (£240 psf)



\* Source: AREF/IPD All Balanced Property Fund Index – to 30 September 2018.



\* 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 PPF	AEW UK Core Property Fund	PPFI
Average weighted unexpired lease term to break	4.6 years	7.2 years
Average weighted unexpired lease term to expiry	6.2 years	8.5 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 30 September 2018.

Risk and volatility statistics	Annualised quarterly data	
	Q3, 2018	Q2, 2018
Absolute standard deviation	3.32%	3.34%
Tracking error	1.83%	1.82%
Information ratio	2.57	2.66
Beta	0.95	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



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