

Quarterly Update

Q4 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 10.0% and 13.2% respectively and fourth over one year¹
- Average out performance of 3.5% p.a. over 5 years and 5.1% p.a. since inception against the MSCI benchmark¹
- Annualised distribution yield of 5.2%¹
- New investors totalling £25.5m subscribing to new units.

¹ Source: AREF/IPD All Balanced Property Fund Index – to 31 December 2018.



Market Outlook

Another market outlook and still Brexit dominates the headlines. Clearly as the continued uncertainty from Westminster gives UK business good reason to delay investment decisions, this has a negative impact on real estate market sentiment. Whilst politicians might yet manage to make a crisis out of a drama, it seems the expectations are still moving towards a softer Brexit. That said early 2019 seems to be characterised by tenants and investors being nervous despite a relatively positive outlook from the Fund's valuers.

Fundamentally, the markets in which the Fund operates seem to be in reasonable shape excluding the well publicised woes of retail, however this is a diminishing issue for the Fund. Much of our retail is underpinned by long term residential values, which might soon benefit from the governments consultation into planning uses on the high street. Values across this sector have been hit very hard, but are eclipsed by the positive changes in business space markets for the Fund.

Whilst in the early part of 2019, we might see some investors rotating their positions due to Brexit concerns. The Fund has significant cash holdings (post period end) and is expecting to make a number of profitable asset management led disposals. For most investors with long term horizons (including a large number of the team) we might expect something brighter later in the year. Meanwhile we have the comfort of tried and tested procedures, jointly with our Governance Committee who may recommend a price swing to bid to protect long term investor's returns, if things get choppy.

Performance

Investment Performance %	3 mths	6 mths	9 mths	1 yr	3 yrs	5 yrs
AEW UK Core Property Fund	1.3	3.2	6.8	9.4	10.0	13.2
Weighted Average	0.9	2.5	4.5	6.5	6.4	9.7
Upper Quartile	1.7	2.2	4.3	8.5	7.9	10.8
Median	1.1	3.0	5.2	7.4	6.6	10.1
Lower Quartile	0.9	3.7	6.3	6.5	6.3	9.3
Funds in Index	26					

Source: AREF/IPD All Balanced Property Fund Index – to 31 December 2018.

Q4 Acquisitions

Hengrove Leisure Park, Bristol

- 87,873 sq ft Leisure Park on a 19 acre site, 3.4 miles from Bristol city centre.
- Diverse range of properties and tenants
- 11.5 years weighted average unexpired lease term.
- £13.85m, reflecting 7.3% NIY and £720,000 per acre.



Phase I & II Billington Road, Rossendale Industrial Estate, Burnley BB11 5UB

- Single let industrial unit located on an established industrial estate
- Low passing rent (£2.90 per sq ft)
- Capital value per sq ft in line with vacant possession values
- £2.56m, reflecting 6.7% NIY and £40 per sq ft



Grazebrook Industrial Park, Dudley, West Midlands, DY2 0XW

- Established multi-let industrial estate
- Low passing rents
- Potential to add value through development
- £7.0m, reflecting 7.2% NIY and £370,000 per acre



Q4 Asset Management

British Steel, Blaydon-upon-Tyne

We have completed the lease renewal of a 115,000 sq ft industrial warehouse at a rent of £220,000 pa (£1.90 psf). The WAULT is now 11 years, with an option to break in 2024.

Puma Distribution Unit, Batley

We have secured a 9.5% increase to £390,000 pa on the June 2016 rent review.

Whitehall Trading Estate, Bristol

We have documented a rent review at a £14,000 pa increase, a 37% uplift on the passing rent.

South East offices

We have completed a lease renewal at Rickmansworth, increasing the rent by 70%. We have also completed a new letting and a lease regear at High Wycombe, growing the rents by 11% to £15.25 psf.

Kayley Industrial Estate, Ashton under Lyme

We have completed external cladding installations and decorations, as well as refurbished vacant units.



Fund Facts	
Portfolio Manager Richard Tanner	
Fund objective 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.	
Launch date: Q1, 2012	
Fund structure An FCA regulated, open ended, core-style property fund. PAIF QIS	
Benchmark All Balanced Property Fund Index – AREF/IPD UK Quarterly Property Fund Index – weighted average	
Fund size (Net Asset Value): £288.6m	
Triple net initial yield (% p.a.): 6.79%	
Reversionary Yield: 7.98%	
Reinvestment: Yes, quarterly	
Number of investors: 50	
Number of AEW employee investors: 3	
Number of properties: 66	
Number of properties under offer: 1	
Gearing (% of NAV): 0.00%	
Total expense ratio: 1.13%	
Capital Cash holdings (% of NAV): 2.4%	
Single price NAV price – £1.3199 Single price – £1.4097 For historical pricing please see www.aewuk.co.uk	
Subscriptions and redemptions Monthly – subject to ability to defer	
Annual management charge: 0.7% p.a.*	
Distribution dates Income is allocated to investors quarterly and paid within two months of the end of the quarter during which they were earned.	
* Performance fee 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.	

Q4 Disposals

River Court, Albert Drive, Woking

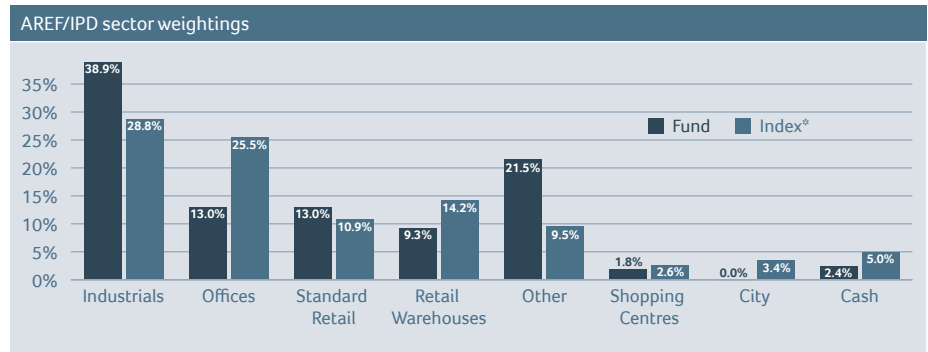
- Multi let office park acquired in 2013 for £2.25m
- Permitted Development Rights for 32 residential units secured in May 2018
- Sold for £5.35m to residential developer

1–3 Salter Row, Pontefract

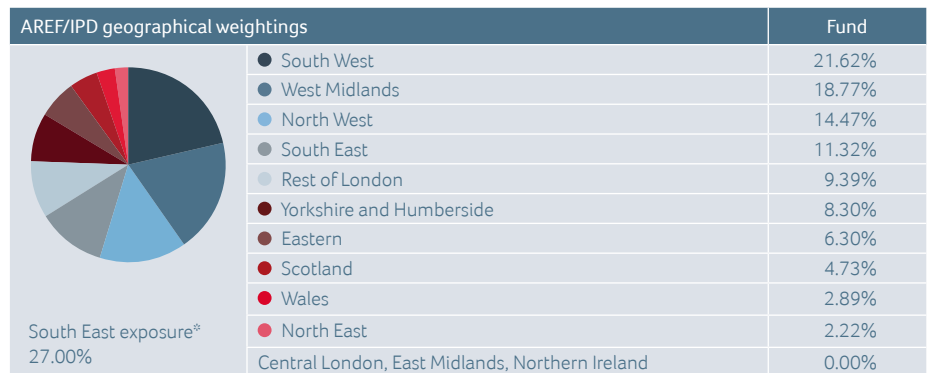
- Acquired in 2012 as part of a larger retail scheme
- Single let to Wilkinson Hardware Stores Limited
- Sold at auction for £750,000

Cadogan House, Reading

- Single let office building acquired in 2013 for £1.15m
- Permitted Development Rights secured in 2018
- Sold for £2.5m to residential developer



* Source: AREF/IPD All Balanced Property Fund Index – to 31 December 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	6.4 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 31 December 2018.

Risk and volatility statistics	Annualised quarterly data	
	Q4, 2018	Q3, 2018
Absolute standard deviation	3.35%	3.32%
Tracking error	1.82%	1.83%
Information ratio	2.52	2.57
Beta	0.97	0.95

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.

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