

Quarterly Update

Q1 20

Fund Highlights

- Over three, five and eight years the Fund was the top performing balanced fund with an annualised total return of 7.6%, 8.5%, and 11.5% respectively
- Average out performance of 2.7% p.a. over 5 years and 4.4% since inception eight years ago against the MSCI benchmark¹
- Annualised distribution yield of 5.0%¹
- Pricing Sub-Committee recommended a -14% adjustment to the Offer price as at 31 March 2020
- Currently no notified redemptions

¹ Source: MSCI/AREF UK Quarterly Property Fund Index – to 31 March 2020.



Market Outlook

After perhaps the shortest relief rally in recent history, the optimism after the Conservative election victory has rapidly given way to the Covid 19 global crisis. The property market aggressively reversed direction as the country entered lockdown. Whilst signs are encouraging that the virus is slowing in the Northern Hemisphere, the way out of lockdown seems less clear and the negative impact on the economy increases the longer it continues.

This has undoubtedly been a Black Swan event and it is no surprise that it has come as a shock to markets. Putting aside the humanitarian costs, our job is to be a good custodian for investors’ capital. Firstly our team at AEW UK is functioning well, working from home and adapting well to the various practical issues this presents. Secondly the Funds’ senior consultants on our Investment Management Committee, who work with the Independent advisors on our Governance Committee and Pricing Sub-Committees, come to the fore, with their many decades of experience. Finally, our asset managers are redoubling their dialogue with tenants on a case by case basis, working to find a solution to each tenant’s difficulties, but taking a much firmer line with those who won’t pay rent rather than can’t, or indeed won’t even discuss a solution.

Quoted REIT shares prices fell heavily at first followed by some limited recovery, as did bids on units in secondary open ended funds and real estate brokers are reporting falling prices, particularly in the hardest hit sectors. At a fund level, events have been similar to other shock events. Valuers have issued valuations with “uncertainty” clauses showing modest reductions in values. Once again we have an apparent dislocation between valuations and market prices which, without action, would risk returns for our longer term investors. These conditions have led many funds to suspend dealing, when perhaps the market opportunities for a long term value manager are at their best.

Shortly after the launch of the AEW UK Core Property Fund we set up an independently controlled Pricing Sub-Committee for this type of market dislocation. Whilst the valuation process remains unaltered, the changes they can recommend to the dealing price removes the arbitrage opportunity between valuations and market prices, hence protecting the interests of all investors. Removing this arbitrage has a number of beneficial results; Firstly the requirements for funds to fire sell assets are reduced or eliminated, secondly buyers tend to re-emerge first in the secondary market providing more rapid liquidity for those that need it, and finally the fund, having effectively moved to the new market level is better placed to exploit the opportunities that arise for both existing investors and new ones. As in previous market cycles, we can expect transaction prices to recover gradually with time and meet falling valuations over the coming months.

Our actions, as so often for a Value manager, make us an outlier in this market, but ultimately are designed to create value for all investors, of which I am one. The team’s track record in adding value now extends over a lengthy period and whilst the next few quarters might be bumpy, the recovery may be relatively accretive to our track record in the longer term.

Rent collection over this quarter has been both lower and slower than a normal quarter. Our objective is to maximise total returns and hence in some cases we are trading short term rent concessions for longer leases. The impact of this will of course depress our distributions for a quarter or two.

Performance

Our performance short term, as in this quarter, is likely to be weaker until valuations settle.

Investment Performance %	3 mths	6 mths	1 yr	3 yrs	5 yrs	8 yrs
AEW UK Core Property Fund	-3.4	-2.8	0.0	7.6	8.5	11.5
Weighted Average	-1.3	-1.0	0.0	4.8	5.8	7.1
Upper Quartile	-0.6	-0.3	1.2	6.4	7.2	8.2
Median	-1.3	-0.9	0.1	5.4	6.5	7.8
Lower Quartile	-1.8	-1.9	-0.5	4.5	5.4	6.7
Funds in Index	27					

All Balanced Property Fund Index – MSCI/AREF UK Quarterly Property Fund Index – to 31 March 2020.

Q1 Asset Management

Kayley Industrial Estate, Ashton Under Lyne


We have completed the letting of unit 3B, the last remaining large unit on the estate, on a straight 5 year lease at £60,000 p.a.



Unit A, Weston Road Crewe

We have settled the October 2019 open market rent review at £800,000 pa (£4.55 psf), representing a £53,480 p.a. increase. The ERV on purchase was £4.25 psf.



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	
SRI policy: Click here	
Benchmark UK All Balanced Property Fund Index – MSCI/AREF UK Quarterly Property Fund Index – weighted average	
Fund size (Net Asset Value): £290.1m The Net Asset Value ("NAV") as at 31 March 2020 is subject to material uncertainty following the Standing Independent Valuer's determination of material valuation uncertainty as per VPS 3 and VPGA 10 of the RICS Red Book Global, due to the unprecedented set of circumstances surrounding the COVID 19 Global Pandemic. Consequently, less certainty and a higher degree of caution should be attached to the NAV.	
Triple net initial yield (% p.a.): 6.5%	
Reversionary Yield: 8.0%	
Reinvestment: Yes, quarterly	
Number of investors: 53	
Number of AEW employee investors: 3	
Number of properties: 67	
Number of properties under offer: 0	
WAULT to expiry (to break): 6.2 years (4.7 years)**	
Gearing (% of NAV): 2.1%	
Total expense ratio: 1.1%	
Capital Cash holdings (% of NAV): 3.6%	
Single price NAV price – £1.2635 Single price – £1.1605 For historical pricing please see www.aewuk.co.uk	
Subscriptions and redemptions Monthly – subject to ability to defer	
Annual management charge: 0.7% of NAV 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 – MSCI/AREF UK Property Fund Index over a three year rolling period and if the return is positive. ** Source: AEW as at 31 March 2020.	

Q1 Acquisitions



56-64 Broadmead & 41-45 Merchant Square, Bristol

- Located in immediate vicinity of a major mixed-use development pipeline
- Fully let to national and international occupiers providing an attractive 8.1% NIY
- £6,700,000 (£303 per sq ft)



3-11 Fairfax Street & 15-18 Nelson Street, Bristol

- The location has been identified as a major regeneration area and the site has significant development potential
- Providing an attractive 8.5% NIY
- £2,250,000 (£71 per sq ft)



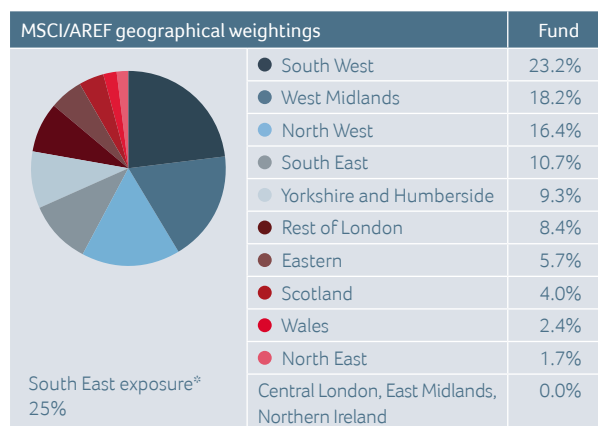
Soho Studios, 47-49 Merchant Square, Bristol

- Comprehensively refurbished, multi-let office led investment
- In the immediate vicinity of a major mixed-use development pipeline
- Fully let with 6 years WAULT to break, providing an attractive 7.1% NIY
- £3,300,000 (£349 per sq ft)

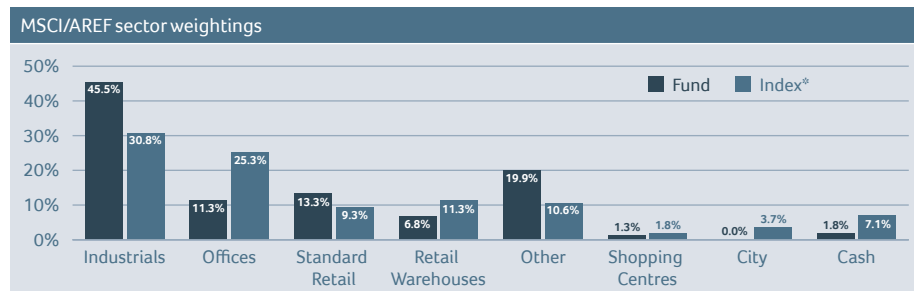
Q1 Disposals

Bold St, Liverpool

We have completed the long-leasehold sale of the upper parts at 21-25 Bold Street, Liverpool at a price in excess of valuation.



* 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).



* Source: MSCI/AREF UK Quarterly Property Fund Index – to 31 March 2020.

Risk and volatility statistics	Annualised quarterly data	
	Q1, 2020	Q4, 2019
Absolute standard deviation	4.03%	3.40%
Tracking error	2.06%	1.75%
Information ratio	1.98	2.56
Beta	1.12	0.99

Source: Based on annualised data since inception and calculated by the AEW Capital Management Research Team. Benchmark is the All Balanced Property Funds Index – MSCI/AREF UK Quarterly 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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