

Quarterly Update

Q2 20

Fund Highlights

- Over seven and eight years the Fund was the top performing balanced fund with an annualised total return of 10.6% and 10.5% respectively
- Average out performance of 2.1% p.a. over 5 years and 4.0% p.a. since inception over eight years ago against the MSCI benchmark¹
- As a value orientated Fund poor relative returns over Q1&2 as experienced in previous shock markets
- Fund remains open for dealing whilst most competitor funds are suspended
- Annualised distribution yield of 4.8%¹

¹ Source: MSCI/AREF UK Quarterly Property Fund Index – to 30 June 2020.



Market Outlook

As the dust settles for now on the COVID-19 pandemic, we are seeing something of a relief rally in the markets. That said, as employees come off furlough, we expect the number of job losses and indeed CVA's to remain elevated for some time. This will feed through to increased vacancies for a period, no doubt, whilst we work through our various business plans.

During the quarter we have sold and put under offer for sale, a few properties at very close to pre COVID-19 pricing. Meanwhile valuer momentum is still very negative, as in previous shock markets, for our value orientated assets, reversing, for now, our ranking in the benchmark in the shorter term. With a shorter lease profile, this is to be expected. That said, we continue to progress some very significant asset management initiatives that, as before, should feed through to improved performance in the future.

With over 25 years of managing core funds through a number of downturns, most importantly our capital base has remained stable, which frees the management team up to exploit the relative value opportunities that this market shock will generate. We wish to thank the Pricing Sub-Committee for their swift action and helpful recommendations in ensuring the Fund remained open for dealing. Our overweight to warehouse and numerous alternative use possibilities in the portfolio are already providing attractive liquidity for reinvestment. The recent changes to the planning use classes order should be positive for many of our retail and leisure assets.

Similar to the March Quarter, rent collection has been both lower and slower than a normal quarter, primarily in the retail and leisure sectors. The collection rates are not too dissimilar between the two quarters, of which we are expecting the June quarter to be over 70%. However our objective is to deliver a strategy over the longer term to maximise total returns and hence in some cases we are trading short term rent concessions for longer leases or landlord flexibility.

Performance

Investment Performance %	3 mths	6 mths	1 yr	3 yrs	5 yrs	7 yrs	8.25 yrs (since inception)
AEW UK Core Property Fund	-4.1	-7.4	-6.0	4.6	6.7	10.6	10.6
Weighted Average	-2.0	-3.3	-2.6	3.4	4.6	7.6	6.6
Upper Quartile	-1.6	-2.5	-1.8	4.5	5.8	8.6	7.7
Median	-2.0	-3.3	-2.3	3.8	5.1	7.8	7.1
Lower Quartile	-2.8	-3.9	-3.2	3.2	4.4	7.2	6.3
Funds in Index	27						

All Balanced Property Fund Index – MSCI/AREF UK Quarterly Property Fund Index – to 30 June 2020.

Q2 Asset Management



Bloxwich Lane Industrial Estate, Walsall

Lease renewal – Bestway Wholesale Ltd has signed a new 15 year FRI lease with tenant break options in years 5 and 10. In renewing this lease we have secured a further 5 years of income to a 5A1 covenant at an increased rent of £342,927 p.a./£4.50 psf, equating to a £92,927 p.a. increase. Only 3 months' rent free was given.




Lochend Industrial Estate, Edinburgh

Corn Dev Europa Ltd has completed a 10 year lease renewal with a further option to extend in year 5. The commencing rent is £290,000 p.a./£5.61 psf with 5 yearly RPI reviews (capped at 3%) and is 65%/£115,000 p.a. above ERV. No rent free incentive was given. This transaction completed on 1st May and more than doubled the value of the asset.



The Kursaal, Southend

During the quarter we completed the surrender of a lease to All London Clubs Limited trading as Rendezvous Casinos for a premium of £1,281,150. The premium reflects an equivalent of 3.25 years rent and aligns with the wider asset strategy to obtain vacant possession for alternative use.

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): £277.5m 52.3% of the Fund's portfolio valuation as at 30 June 2020, which includes all of its assets that do not sit within the industrial sector, is subject to material 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. The industrial sector was removed from this clause a short time prior to the valuation date.	
Triple net initial yield (% p.a.): 6.81%	
Reversionary Yield: 8.24%	
Reinvestment: Yes, quarterly	
Number of investors: 53	
Number of AEW employee investors: 3	
Number of properties: 66	
Property purchases under offer: 1	
Property sales under offer: 3	
WAULT to expiry (to break): 6.2 years (4.7 years)**	
Gearing (% of NAV): 3.6%	
Total expense ratio: 1.1%	
Capital Cash holdings (% of NAV): 3.1%	
Single price NAV price – £1.2004 Single price – £1.1538 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 30 June 2020.	

Q2 Disposal

Grandstand Road, Wakefield

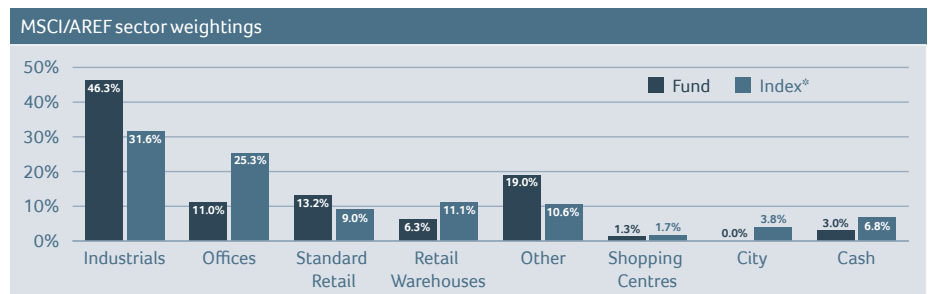
We completed the sale at Wakefield 41 Industrial Park for £20.63 million, the property was acquired in September 2013 for £5.21m/12.2% NIY.

AEW enacted an extensive business plan of asset management in order to maximise value from the site. This included acquiring the freehold, disposing of the adjoining office building, and securing planning permission to double the size of the warehouse unit to c.200,000 sq ft. The extension was completed with the occupier remaining in occupation which enabled the Fund to maintain income throughout. The result of all the asset management initiatives resulted in an IRR of more than 33%.



MSCI/AREF geographical weightings	Fund
● South West	23.2%
● West Midlands	17.6%
● North West	16.8%
● South East	10.4%
● Yorkshire and Humberside	10.4%
● Rest of London	7.6%
● Eastern	5.4%
● Scotland	4.7%
● Wales	2.3%
● North East	1.6%
Central London, East Midlands, Northern Ireland	0.0%

* 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 30 June 2020.

Risk and volatility statistics	Annualised quarterly data	
	Q2, 2020	Q1, 2020
Absolute standard deviation	4.6%	4.03%
Tracking error	2.3%	2.1%
Information ratio	1.61	1.98
Beta	1.22	1.12

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.

Key contact



Investor Relations

Kari Clarke

kari.clarke@eu.aew.com | T: 020 7016 4804

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