

Schroder UK Real Estate Fund

INVESTMENT POLICY AND OBJECTIVES

The investment objective of the Fund is to achieve a blend of income and capital growth for investors through investment in UK property. Risk is diversified by the Fund holding a mixed portfolio of retail, office, industrial and other property (including leisure) throughout the UK. The Fund seeks to provide a return of 0.5% per annum (net of fees) above its benchmark (MSCI/AREF UK Quarterly Property Fund Index – All Balanced Fund Weighted Average) over rolling three year periods.

INVESTOR CONSTITUENCY

The Fund, previously named Schroder Exempt Property Unit Trust, converted on 31 July 2012 into a Property Authorised Investment Fund ('PAIF'). As a result it is now available for investment not only to exempt funds, but to a wider range of UK and foreign professional investors including insurance companies, diversified multi-asset funds, financial institutions, discretionary asset managers. It is not suitable for retail investors. For full details see the Prospectus on the Fund's web-site www.schroders.com/sref

Fund details	
Type of fund	Property authorised investment fund
Residence	United Kingdom
Launch date	June 1971 (See 'Investor constituency' above)
Open/closed-ended	Open-ended
Earliest date of winding up	Not applicable
Year-end	31 March
NAV (GBPm)	2217.4

Source: Schroders

Management/professional advisors	
Authorised Corporate Director ('ACD')	Schroder Unit Trusts Limited
Investment Manager	Schroder Real Estate Investment Management Limited
Fund Manager	Jessica Berney
Depository	Natwest Trustee & Depository Services Limited
Auditors	PricewaterhouseCoopers

Source: Schroders

Investment rates of return, %		MSCI/AREF UK Quarterly Property Fund Index		
	Schroder UK Real Estate Fund	Other balanced funds	All balanced funds	All funds
3 months	2.0	2.1	2.1	1.4
Year-to-date	-0.4	-1.0	-1.0	-2.9
12 months	-0.4	-1.0	-1.0	-2.9
3 years+	2.9	2.7	2.3	1.1
5 years+	4.9	4.4	3.9	3.0
10 years+	7.5	6.7	6.4	5.9

Source: MSCI/AREF UK Quarterly Property Fund Index

Property investment restrictions	
Maximum development exposure	20% of NAV
Maximum speculative development exposure	15% of NAV
Maximum lot-size holding as a standing investment	15% of NAV
Maximum lot-size holding permitted at purchase	15% of NAV
Maximum exposure to limited partnerships/joint ventures	35% of NAV
Maximum exposure to closed and open-ended property unit trusts	None specified
Maximum leverage	25% of NAV

Source: Schroders

Portfolio distribution %		**MSCI/AREF UK Quarterly Property Fund Index		
	Schroder UK Real Estate Fund	Other balanced funds	All balanced funds	All funds
Standard retail – South East	4.4	6.1	5.3	4.9
Standard retail – Rest of UK	2.2	2.2	2.5	3.3
Shopping centres	0.6	1.1	1.5	4.2
Retail warehouses	5.0	11.2	10.5	9.2
All UK retail	12.3	20.6	19.8	21.6

City offices	6.6	4.1	3.8	3.2
West End offices	4.8	7.6	8.5	7.6
Rest of South East offices	29.6	11.0	10.5	7.5
Rest of UK offices	5.1	6.1	5.7	5.1
All UK offices	46.0	28.9	28.5	23.4
South East industrial	16.5	21.1	21.9	18.0
Rest of UK industrial	5.3	11.6	11.4	9.2
All UK industrial	21.9	32.7	33.2	27.3
Other UK properties	10.6	11.0	10.1	21.5
Cash	9.2	6.8	8.4	6.2
Overall	100.0	100.0	100.0	100.0

Sources: * Schroders ** MSCI/AREF UK Quarterly Property Fund Index

Note: Schroder UK Real Estate portfolio distribution is based on total property valuation plus cash held in direct vehicles but excludes cash held in indirect vehicles

Property ownership structure

	Number of assets	Valuation (GBPm)	% of total portfolio
Direct holdings	59	1,733.9	85.4
Joint and indirect holdings	7	296.3	14.6
Listed investments	0	0.0	0.0
Total	66	2,030.2	100.0

Source: Schroders

Largest direct investments by lot size & percentage of total portfolio

Property	Location	Sector	Valuation (GBPm)	% of total portfolio
RUSKIN SQUARE, BUILDING 1 (HMRC)	CROYDON	Office	150-200m	0.0
WENLOCK WORKS (SHEPHERDESS WALK)	LONDON	Office	100-150m	0.0
ACORN INDUSTRIAL ESTATE, CRAYFORD	DARTFORD	Industrial	100-150m	0.0
ONE LYRIC	LONDON	Office	100-150m	0.0
MATRIX, PARK ROYAL	LONDON	Industrial	50-100m	0.0
HARTLEBURY TRADING ESTATE	KIDDERMINSTER	Industrial	50-100m	0.0
KENSINGTON VILLAGE	LONDON	Office	50-100m	0.0
WOKING BUSINESS PARK	WOKING	Industrial	50-100m	0.0
BATTERSEA STUDIOS, SILVERTHORNE ROAD	LONDON	Office	50-100m	0.0
CHENIES STREET	LONDON	Office	50-100m	0.0
10 largest investments as % of portfolio			0.0	0.0

Source: Schroders

Direct portfolio structure by lot-size bands

Value band (GBPm)	Number of assets	Valuation (GBPm)	% of total portfolio
0-2.5	2	0.6	0.0
2.5 - 5	0	0.0	0.0
5-10	10	80.9	4.0
10-25	9	155.7	7.7
25 - 50	14	530.7	26.1
50 - 100	7	454.2	22.4
100-150	3	348.8	17.2
Over 150	1	163.0	8.0
Total	59	1733.9	85.4
Average lot size		29.4	

Source: Schroders

Property Yield

Net initial yield	4.20%
Nominal equivalent yield	5.30%
True equivalent yield	5.60%
Net reversionary yield	5.80%

Source: Schroders

Voids as % of ERV

Investments	6.10%
Developments	-0.70%
Total	5.40%

Rental income & ERV by type of property

	Rental income %	Estimated rental value %
Standard retail	11.1	9.4
Retail warehousing	7.9	7.6
Shopping centres	0.5	1.2
Central London offices	4.9	11.8
Other offices	35.0	37.4

Industrial	26.3	21.3
Other	14.3	11.4
Overall	100.0	100.0

Source: Schroders

Over Renting and Reversionary Potential, % Rent Passing

Sector	Rent Passing, GBP Millions	Rent Free, % Rent Passing	Development vacancy, % Rent Passing	Investment vacancy, % Rent Passing	Over rented, % Rent Passing	Reversionary potential, % Rent Passing	Reversionary potential Net of Over renting, % Rent Passing	Market Value, % Rent Passing
Standard retail	10.0	6.1	0.0	8.3	-12.9	11.2	-1.7	112.7
Retail warehousing	7.1	18.0	0.0	17.1	-13.9	7.6	-6.3	128.8
Shopping centres	0.4	33.6	0.0	150.0	-13.7	78.0	64.3	347.9
Central London offices	4.4	166.7	22.7	4.8	-0.6	29.5	28.9	322.9
Other offices	31.3	27.6	0.0	8.8	-4.4	11.4	7.0	143.3
Industrial	23.6	3.4	0.0	4.5	-6.5	6.8	0.3	108.3
Other	12.8	4.6	0.0	5.0	-6.1	2.9	-3.2	106.3
Overall	89.4	21.6	1.1	8.2	-6.8	9.9	3.1	134.0

*Comprising the % rent passing of developments in progress or contracted which have not been pre-let

Source: Schroders

The unexpired term of leases

Years	% of rent passing
20 years or greater	13.3
15 years or greater, but less than 20	8.5
10 years or greater, but less than 15	7.9
5 years or greater, but less than 10	27.8
Less than 5 years	42.4

Source: Schroders

Joint and Indirect property holdings

Holdings	Sector	Joint/Indirect	Vehicle Type	Ownership %	Valuation	Est. % of total portfolio
Bracknell Town Centre	Retail and office	JV	JPUT	49.1	-	-
City Tower Unit Trust	Office	JV	JPUT	50.0	-	-
York, Monks Cross	Retail warehouse	JV	Trust for Land	25.0	-	-
London E14, West India Quay	Other	JV	JPUT	50.0	-	-
Store Unit Trust	Office	JV	JPUT	50.0	-	-
Motor Retail LP	Standard retail	JV	LP	50.0	-	-
Henderson UK Retail Warehouse Fund (HRWF)	Retail warehouse	IND	JPUT	2.2	-	-
-	-	-	-	-	-	-

Source: Schroders

Development exposure*

	Capital value of developments			Cost to complete schemes in progress+
	Not yet started	In progress+	All developments	
GBPm	0	0.0	0.0	0
% of all directly held properties*	0.00%	0.00%	0.00%	0.00%

* Includes joint ventures in which the Fund has an interest of 50% or more

Source: Schroders

Valuations/performance monitors/affiliations

Valuation point	Monthly at 8am on the first business day of each calendar month
Valuer	BNP Paribas Real Estate
Portfolio performance monitored by MSCI	Yes
Constituent of the MSCI/AREF UK Quarterly Property Fund Index	Yes
Member of the Association of Real Estate Funds	Full Member

Source: Schroders

Restrictions on holdings of cash/borrowings

Maximum total gearing permitted	25% of NAV
For investment purpose	*
For liquidity purpose	*
Cash holdings (maximum)	10.0%

Cash holdings (minimum)

Source: Schroders

The contribution of major tenants to rental income	
Tenant	%
The Secretary of State	9.3
The Office Group	5.0
Checkout Limited	4.0
Arrival	3.6
Tata Steel UK Ltd	3.4
Lloyds TSB Bank Plc	2.6
Marketing VF Limited	2.4
Queen Mary University of London	2.3
Care UK Community Partnership Ltd	2.1
University of Law	2.0
Three largest tenants' contribution to rental income	18.3
Five largest tenants' contribution to rental income	25.3
Ten largest tenants' contribution to rental income	36.7

Source: Schroders

Balance sheet/gearing

	Direct holdings	Joint holdings	Indirect investments	Listed investments	Total
Balance sheet (GBPm)					
Properties at valuation	1733.9	282.7	13.6	0.0	2030.2
Listed investments	0.0	0.0	0.0	0.0	0.0
Debt	0.0	0.0	-8.2	0.0	-8.2
Cash	202.5	3.0	0.0	0.0	205.5
Other net assets/liabilities	-9.5	-0.9	0.2	0.0	-10.1
Total net assets	1927.0	284.8	5.6	0.0	2217.4
Gearing (%)					
Net debt (cash)/properties	-11.7	-1.1	60.4	-	-9.7
Net debt (cash)/equity	-10.5	-1.0	145.9	-	-8.9

Sources: ~Schroders; +MSCI

Quarterly data per unit

As at	30-Sep-19	31-Dec-19	31-Mar-20	30-Jun-20	30-Sep-20	31-Dec-20
Bid (GBP)	46.82	46.59	45.26	44.79	44.60	45.20
Offer (GBP)	49.43	49.16	47.77	47.23	46.97	47.59
Bid/offer spread	5.3%	5.2%	5.3%	5.2%	5.0%	5.0%
Net asset value (GBP)	47.62	47.39	46.02	45.48	45.28	45.86
Quarterly distribution (GBP)	0.35	0.36	0.35	0.31	0.35	0.31
Yield	3.0%	3.0%	3.1%	3.0%	3.0%	2.9%

Source: Schroders/The MSCI/AREF UK Pooled Property Fund Index

Share pricing

The price at which shares in the Fund may be issued or redeemed is calculated as at 8am on the first business day of each calendar month.

The share price is based on property and other asset valuations as at the last business day of the immediately preceding month. Income is not included in the share price.

Minimum investment/disinvestment

The minimum initial investment in the Fund is GBP100,000 and the minimum holding following a redemption of shares is also GBP100,000.

The minimum subsequent investment in the Fund is GBP20,000.

Subscriptions for shares

The Fund is open to subscriptions on a monthly basis. Subscription day is the first working day of the month but Application Forms and cleared funds must be received by the ACD by midday on the preceding working day.

Redemptions of shares

The Dealing Day for redemptions is the first business day of each quarter, but requests to redeem shares must be received by the registrar by midday on the last business day three months before the relevant Dealing Day.

The ACD may, in exceptional circumstances, suspend the issue or redemption of shares if, in its judgement and that of the Depositary, it is in the interests of shareholders to do so. Redemptions may be deferred for up to two years.

Transfers of shares

The Fund's Secondary Market Facilitator operates a Share matching service between sellers and buyers of shares. A waiting list is maintained and matching is operated on the following basis:-

- a) First price: shares available from sellers seeking the lowest price per share will be offered to buyers by order of date of receipt of the relevant form
- b) Secondly, notification date: where multiple sellers are looking to sell at a given price, preference will be given to sellers by order of date of receipt of the relevant form. Where multiple buyers are looking to buy shares for which the relevant forms were received on the same day, matching will be allocated pro-rata to the number of shares applied for (subject to any minimum trade requirements specified by a party).

The buyer and seller of secondary market shares will be subject to a commission at the rate of 0.2% (subject to a minimum of GBP50).

Shares may also be exchanged between buyers and sellers without the involvement of the Secondary Market Facilitator. The re-registration of such shares will take place on the first business day of each month following the receipt of a completed stock transfer form.

Tax and Distributions

Distributions are paid monthly in arrears on the last business day of each calendar month.

Tax exempt investors are eligible to invest in the PAIF and will receive income gross. They may elect to automatically reinvest income.

Corporate investors who invest through the Feeder Fund will receive income net of corporation tax (currently at the rate of 20%).

Management Fees

The Annual Management Charge comprises 0.30% per annum of the net asset value of the Fund plus of 0.40% per annum of the gross asset value of directly held property and capital cash only. 50% of the Annual Management Charge is allocated to capital and 50% to income.

Unit holder analysis		
	Number of unitholders	Total % held
Less than 1% of units in issue	161	42.2
1% or greater but less than 2%	28	37.1
2% or greater but less than 4%	3	7.1
4% or greater but less than 8%	1	4.4
Greater than 8.0%	1	9.4
Total	194	100.0
Major investors		
Largest holder	1	9.4
Three largest holders	3	16.4
Five largest holders	5	20.8
Ten largest holders	10	29.9
Internal/external investors		
Internal	28	27.2
External	166	72.8

Source: Schroders

Liquidity						
Period	Year to Dec 2015	Year to Dec 2016	Year to Dec 2017	Year to Dec 2018	Year to Dec 2019	Year to Dec 2020
Issues and redemptions						
Units in issue as at start of period	47,611,854	52,179,653	53,236,059	53,832,374	54,283,191	50,183,398
Units issued during period	4,567,798	1,056,406	596,315	450,817	361,159	74,122
Units redeemed during period	0	0	0	0	-4,460,952	-672,597
Units in issue at end of period	52,179,653	53,236,059	53,832,374	54,283,191	50,183,398	49,584,922
Unit transfers						
Matched bargains	2,863,726	3,076,053	1,950,179	2,997,863	2,663,264	1,110,810
Matched bargains %*	5.5%	5.8%	3.6%	5.5%	5.3%	2.2%

* as % of units in issue at the end of the period

Source: Schroders