

AEW UK Real Return Fund

INVESTMENT POLICY AND OBJECTIVES

The AEW UK Real Return Fund ("the Fund") strategy is to align the real benefits of property with the needs of long-term savers. It aims to deliver better risk adjusted liability focused returns, with inflation-linked cash flow and income growth central to strategy. The Fund has a total real return performance target and will access a wider UK investible universe of traditional and alternative sectors such as healthcare, leisure, car parks, social infrastructure and student housing, aiming to generate greater diversification and lower volatility.

INVESTOR CONSTITUENCY

The Fund is open to investment by UK and Overseas Corporate Pension Funds, Local Authorities, Charities, SIPPS, UK and Overseas Corporates and Wealth Managers.

Fund details	
Type of fund	Property Authorised Investment Fund
Residence	UK
Launch date	Q1 2016
Open/dosed-ended	Open-ended
Earliest date of winding up	N/A
Year-end	31 December
NAV (GBPm)	156.5

Source: AEW

Management/professional advisors	
Manager	AEW UK
Investment Advisor	AEW UK
Fund Manager	Ian Mason
Depository	BNY Mellon Trust & Depository
Auditors	BDO

Source: AEW

Investment rates of return, %		MSCI/AREF UK Quarterly Property Fund Index*		
	AEW UK Real Return Fund	Long income Open-Ended Funds	All balanced open-ended funds	All funds
3 months	1.5	-0.7	0.4	0.3
Year-to-date	0.4	-1.3	0.2	0.1
12 months	-5.4	-16.6	-17.4	-17.1
3 years+	4.2	0.0	3.4	2.3
5 years+	4.0	1.8	2.2	1.1
10 years+	-	5.1	6.3	5.5

Note: * Weighted average returns (Annualized)

Source: MSCI/AREF UK Quarterly Property Fund Index

** Target 4% pa total real return

Property investment restrictions	
Maximum development exposure	20% (pre let development)
Maximum speculative development exposure	Not Permitted
Maximum lot-size holding as a standing investment	n/a
Maximum lot-size holding permitted at purchase	10%
Maximum exposure to limited partnerships	*
Maximum exposure to joint ventures	*
Maximum exposure to closed and open-ended property unit trusts	Not Permitted

Note: *None specified

Source: AEW

Portfolio distribution %		MSCI/AREF UK Quarterly Property Fund Index**		
	AEW UK REAL RETURN FUND*	Long income Open-Ended Funds	All balanced open-ended funds	All funds
Standard retail – South East***	4.7	7.94	4.59	4.63
Standard retail – Rest of UK***	4.3	5.82	1.42	2.34
Shopping centres	0.0	0.49	0.87	2.53
Retail warehouses	0.0	0.92	12.11	7.64
All UK retail	9.0	15.17	18.99	17.14
City offices	0.0	2.91	3.40	3.22
West End offices	0.0	3.78	7.51	5.08
Rest of South East offices	0.0	5.57	7.11	5.54
Rest of UK offices	0.0	9.60	4.92	5.25
All UK offices	0.0	21.87	22.94	19.09
South East industrial	5.5	4.83	24.50	20.33
Rest of UK industrial	10.2	10.21	13.65	11.76
All UK industrial	15.7	15.04	38.16	32.09
Other UK properties	65.2	44.90	12.51	25.89
Cash	10.1	3.02	7.40	5.80
Overall	100.0	100.00	100.00	100.00

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

*** MSCI Standard Retail Definition includes public houses, car showrooms and other alternative sub sectors.

Property ownership structure			
	Number of assets	Valuation (GBPm)	% of total portfolio
Direct holdings	50	139.6	100.0
Joint and indirect holdings	0	0.0	0.0

Listed investments	0	0.0	0.0
Total	50	139.6	100.0

Source: AEW

Largest direct investments by lot size & percentage of total portfolio				
Property	Location	Sector	Valuation (GBPm)	% of total portfolio
THE RESIDENCES	MIDDLESBROUGH	Residential	10-15	5-10%
SPRINGHILL CARE CENTRE	ACCRINGTON	Healthcare	5-10	5-10%
ASHLANDS MEWS AND ST GEORGE'S	LEICESTER	Healthcare	5-10	0-5%
LARKLAND HOUSE CARE CENTRE	ASCOT	Healthcare	5-10	0-5%
BROOKS LANE MIDDLEWICH,MIDDLEWICH,BROOKS LANE	CHESHIRE	Industrial	5-10	0-5%
MUSWELL HILL PRE SCHOOL,LONDON,TETHERDOWN HALL	Tetherdown	Education	0-5	0-5%
THE POINT	BOREHAMWOOD	Leisure Park (whole or part)	0-5	0-5%
HOLMES COURT AND HOLMES HOUSE	WIGSTON	Healthcare	0-5	0-5%
JABUTE, UNIT A,	ARUNDEL	Industrial	0-5	0-5%
MARSHALL 41	MILTON KEYNES	Industrial	0-5	0-5%
10 largest investments as % of portfolio			64.6	46.2

Source: AEW

Direct portfolio structure by lot-size bands			
Value band (GBPm)	Number of assets	Valuation (GBPm)	% of total portfolio
0 -2.5	26	32.0	22.9
2.5 - 5	19	65.1	46.7
5-10	4	28.7	20.6
10-25	1	13.8	9.9
25 - 50	-	-	-
50 - 100	-	-	-
100-150	-	-	-
Over 150	-	-	-
Total	50	139.6	100.0
Average lot size		2.8	

Source: AEW

Property Yield	
Net initial yield	6.96%
Nominal equivalent yield	7.98%
True equivalent yield	8.40%
Net reversionary yield	6.67%

Source: Knight Frank

Voids as % of ERV	
Investments	3.53%
Developments	0.00%
Total	3.53%

Source: Knight Frank

Rental income & ERV by type of property		
	Rental income %	Estimated rental value %
Standard retail	10.6	11.2
Retail warehousing	0.0	0.0
Shopping centres	0.0	0.0
Central London offices	0.0	0.0
Other offices	0.0	0.0
Industrial	18.0	19.0
Other	71.4	69.8
Overall	100.0	100.0

Source: AEW

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	1.1	0.0	0.0	5.9	-12.7	10.9	-1.9	104.0
Retail warehousing	-	-	-	-	-	-	-	-
Shopping centres	-	-	-	-	-	-	-	-
Central London offices	-	-	-	-	-	-	-	-
Other offices	-	-	-	-	-	-	-	-
Industrial	1.9	0.0	0.0	0.0	0.0	3.8	3.8	103.8
Other	7.4	0.0	0.0	4.0	-11.1	3.0	-8.1	95.9
Overall	10.4	0.7	0.0	3.5	-9.3	4.0	-5.3	98.2

Source: AEW

* 91% of income linked to inflation or fixed uplifts

Listed Investments			
	% of issue held	Valuation (GBPm)	Est. % of total portfolio
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-

The unexpired term of leases*	
Years	% of rent passing

20 years or greater	37.2
15 years or greater, but less than 20	18.7
10 years or greater, but less than 15	17.2
5 years or greater, but less than 10	11.8
Less than 5 years	15.1

Source: AEW

* WAULT to break 15.7 years

Joint and Indirect property holdings						
Holdings	Sector	Joint/Indirect	Vehicle Type	Ownership %	Valuation	Est. % of total portfolio
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-

Source: AEW

Debt analysis						
Fixed rate borrowings				Variable rate borrowings		
Amount drawn (GBPm)	Average rate	(%)	Average unexpired term (years)	Amount drawn (GBPm)	Rate above LIBOR (incl expenses) (%)	Off balance sheet debt (GBPm)+
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-

Source: AEW

Development exposure*				
	Capital value of developments			Cost to complete schemes in progress+
	Not yet started	In progress+	All developments	
GBPm	-	-	-	-
% of all directly held properties*	-	-	-	-

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

Valuations/performance monitors/affiliations	
Frequency of valuation	Monthly
Valuers	Knight Frank
Portfolio performance monitored by MSCI	Yes
Constituent of MSCI/AREF UK Quarterly Property Fund Index	Yes
Member of the Association of Real Estate Funds	Full Member

Source: AEW

Restrictions on holdings of cash/borrowings	
Maximum total gearing permitted	
For investment purposes	*
Cash holdings (maximum)	10%**

Source: AEW

*Long term gearing not permitted

**Due to unit creations. Can be higher due to strategy

The contribution of major tenants to rental income	
Tenant	%
PRIME LIFE LIMITED	18.2
SOUTH TEES NHS FOUNDATION TRUST	9.8
THREE LITTLE BIRDS LPS LIMITED	8.3
BOOKER CASH AND CARRY LTD	7.7
CARE UK COMMUNITY PARTNERSHIPS LTD	5.7
INCLUSION HOUSING CIC	5.1
BEWI PACKAGING & COMPONENTS (UK) LTD	3.4
CELESTRA LIMITED	2.9
REVOLUTION BARS LTD	2.6
MY SPACE HOUSING SOLUTIONS	2.6
Three largest tenants' contribution to rental income	36.3
Five largest tenants' contribution to rental income	49.7
Ten largest tenants' contribution to rental income	66.3

Source: AEW

Balance sheet/gearing					
	Direct holdings	Joint holdings	Indirect investments	Listed investments	Total
Balance sheet (GBPm)					
Properties at valuation	139.6	0.0	0.0	0.0	139.6
Listed investments	0.0	0.0	0.0	0.0	0.0
Debt	0.0	0.0	0.0	0.0	0.0
Cash	15.6	0.0	0.0	0.0	15.6
Other net assets/liabilities	1.2	0.0	0.0	0.0	1.2
Total net assets	156.5	0.0	0.0	0.0	156.5
Gearing (%)					

Net debt (cash)/properties	-11.2	-	-	-	-11.2
Net debt (cash)/equity	-10.0	-	-	-	-10.0

Source: AEW

Quarterly data per unit						
As at	31-Mar-22	30-Jun-22	30-Sep-22	31-Dec-22	31-Mar-23	30-Jun-23
Bid (GBP)	1.033	1.059	1.066	0.977	0.953	0.955
Offer (GBP)	1.120	1.148	1.156	1.059	1.033	1.036
Bid/offer spread	7.8%	7.8%	7.8%	7.8%	7.8%	7.8%
Net asset value (GBP)	1.049	1.075	1.082	0.991	0.967	0.970
Quarterly distribution (GBP)	0.0139	0.0107	0.0120	0.0096	0.0139	0.0117
Yield	5.4%	5.2%	4.7%	4.7%	4.8%	4.9%

Note: *The Fund's distribution yield is calculated once it has made four quarterly distributions

**Based on MSCl methodology as a Percentage of Offer Price. Bid / offer spread as a Percentage of NAV price is 8.3%

Source: AEW

Unit pricing

The Fund's NAV and the bid / offer price of its units are calculated on the date of the monthly revaluation of the portfolio as at the last day of each month.

Distributions

Distributions are declared on a quarterly basis and paid within two months of the end of the quarter during which they were earned.

Minimum investment/disinvestment

A minimum initial investment of £1,000,000, although the Manager may approve smaller holdings.

Creation, transfer and realisation of units

Units may be issued by the Depositary on the direction of the Manager on giving notice at least 14 business days ahead of the next Dealing Day for Subscriptions which is the first business day in each calendar month.

Redemptions

Units may be redeemed on written notice to be received by the Manager at least one month prior to the next Dealing Day for Redemptions which is the first business day in each calendar month. At its discretion and in consultation with the Governance Committee, the Manager may defer redemptions for up to six months.

Taxation

Capital Gains Tax

The Fund is not subject to capital gains tax.

Income Tax

The Fund qualifies as a PAIF for tax purposes. Accordingly, the income generated by their Property Investment Business will be exempt from tax.

Charges

Annual charges: The Fund Manager is entitled to an annual fee (payable monthly) equivalent to 0.75% pa of the Net Asset Value of the Fund.

Unit holder analysis		
	Number of unitholders	Total % held
Less than 1% of units in issue	6	0.8
1% or greater but less than 2%	1	2.0
2% or greater but less than 4%	0	0.0
4% or greater but less than 8%	4	24.3
Greater than 8.0%	5	72.9
Total	16	100.0
Major investors		
Largest holder	1	28.7
Three largest holders	3	52.8
Five largest holders	5	72.9
Ten largest holders	10	99.2
Internal/external investors		
Internal	2	0.2
External	14	99.8

Source: AEW

Liquidity						
Period	Year to Dec 2018	Year to Dec 2019	Year to Dec 2020	Year to Dec 2021	Year to Dec 2022	Year to Dec 2023
Issues and redemptions						
Units in issue as at start of period	82,112,727	127,943,693	142,573,871	143,062,128	182,339,081	194,937,195
Units issued during period	45,830,966	17,981,717	488,258	41,387,766	12,598,115	647,158
Units redeemed during period	-	-3,351,539	0	-211,081,771	0	-34,259,071
Units in issue at end of period	127,943,693	142,573,871	143,062,128	182,339,081	194,937,195	161,325,282
Unit transfers						
Matched bargains	-	-	-	727,063	0	0
Matched bargains %*	-	-	-	4%	0%	0%

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

Source: AEW