

## Threadneedle Pensions Ltd

### INVESTMENT POLICY AND OBJECTIVES

The objective of the Fund is to deliver good long-term relative performance by being fully invested in a diversified portfolio of UK commercial property. Its objective is to outperform its benchmark, the MSCI/AREF UK Quarterly Property Fund Index, weighted average, total return, by 1.0% pa or better (net of fees), on a rolling three-year basis

### INVESTOR CONSTITUENCY

Approved defined benefit and defined contribution occupational pension schemes

Fund details	
Type of fund	Exempt approved managed fund
Residence	United Kingdom
Launch date	31-Dec-79
Open/closed-ended	Open-ended
Earliest date of winding up	Not applicable
Year-end	31-Dec
NAV (GBPm)	2047.8

Source : Threadneedle Pensions Ltd

Management/professional advisors	
Manager	Threadneedle Asset Management Limited
Investment Advisor	Threadneedle Portfolio Services Limited
Fund Manager	Nathan Hargreaves
Corporate trustee	Not applicable
Auditors	PricewaterhouseCoopers

Source : Threadneedle Pensions Ltd

Investment rates of return, %		MSCI/AREF UK Quarterly Property Fund Index		
	Threadneedle Pensions Ltd	Other balanced funds	All balanced funds	All funds
3 months	0.35	0.31	0.30	-0.02
Year-to-date	1.39	1.78	1.59	0.74
12 months	1.39	1.78	1.59	0.74
3 years+	5.70	6.53	6.02	5.27
5 years+	6.55	7.20	6.62	5.97
10 years+	7.56	8.10	7.73	7.73

Source: MSCI/AREF UK Quarterly Property Fund Index (Sponsored by PropertyMatch)

Property investment restrictions	
Maximum development exposure	*
Maximum speculative development exposure	*
Maximum lot-size holding as a standing investment	*
Maximum lot-size holding permitted at purchase	*
Maximum exposure to limited partnerships	*
Maximum exposure to joint ventures	*
Maximum exposure to closed and open-ended property unit trusts	*

Source : Threadneedle Pensions Ltd

### Portfolio distribution %

MSCI/AREF UK Quarterly Property Fund Index**				
	Threadneedle Pensions Ltd	Other balanced funds	All balanced funds	All funds
Standard retail – South East	4.1	7.4	6.8	5.6
Standard retail – Rest of UK	2.9	3.0	3.2	3.6
Shopping centres	2.3	1.3	2.0	6.6
Retail warehouses	9.4	12.3	12.0	10.8
<b>All UK retail</b>	<b>18.7</b>	<b>24.0</b>	<b>23.9</b>	<b>26.5</b>
City offices	6.2	3.6	3.3	2.9
West End offices	9.6	7.6	8.0	6.7
Rest of South East offices	14.2	11.6	10.8	7.6
Rest of UK offices	2.8	6.3	5.9	5.0
<b>All UK offices</b>	<b>32.7</b>	<b>29.1</b>	<b>28.0</b>	<b>22.2</b>
South East industrial	13.1	19.6	19.9	15.9
Rest of UK industrial	20.3	10.5	10.2	8.3
<b>All UK industrial</b>	<b>33.4</b>	<b>30.1</b>	<b>30.1</b>	<b>24.2</b>
Other UK properties	5.9	11.7	10.7	21.4
Cash***	9.3	5.1	7.3	5.7
<b>Overall</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source : Threadneedle Pensions Ltd

\*\* MSCI/AREF UK Quarterly Property Fund Index (Sponsored by PropertyMatch)

Property ownership structure			
	Number of assets	Valuation (GBPm)	% of total portfolio
Direct holdings	273	1,836.9	97.5
Joint and indirect holdings	1	46.7	2.5
Listed investments	0	0	0.0
<b>Total</b>	<b>274</b>	<b>1,883.7</b>	<b>100.0</b>

Source : Threadneedle Pensions Ltd

Largest direct investments by lot size & percentage of total portfolio				
Property	Location	Sector	Valuation (GBPm)	% of total portfolio
London W1 The Heals Building	London	Town Centre Offices	105.0	5.6
Chelmsford, Boreham Airfield	Chelmsford	Miscellaneous	47.8	2.5
Deeside, deeside Industrial Park	Deeside	Industrial / Warehouse	47.8	2.5
London EC1, Banner Street	London	Town Centre Offices	34.0	1.8
London EC1, 29-35 Farringdon Rd	London	Town Centre Offices	33.4	1.8
Watford, Penfold Works	Watford	Industrial / Warehouse	31.9	1.7
High Wycombe, Mercury Park	High Wycombe	Out of Town Offices	26.5	1.4
Wimbledon, Wellington	Wimbledon	Out of Town Offices	26.4	1.4
Sittingbourne, Spade Lane D/Cen	Sittingbourne	Industrial / Warehouse	25.2	1.3
South Okendon, Arisdale Avenue	South Okendon	Industrial / Warehouse	24.0	1.3
<b>10 largest investments as % of portfolio</b>			<b>402.0</b>	<b>21.3</b>

Source : Threadneedle Pensions Ltd / MSCI estimates

Direct portfolio structure by lot-size bands			
Value band (GBPm)	Number of assets	Valuation (GBPm)	% of total portfolio
0 -2.5	103	140.4	7.5
2.5 - 5	51	180.3	9.6
5-10	62	445.2	23.6
10-25	48	693.0	36.8
25 - 50	8	273.0	14.5
50 - 100	0	0.0	0.0
100-150	1	105.0	5.6
Over 150	0	0.0	0.0
<b>Total</b>	<b>273</b>	<b>1836.9</b>	<b>97.5</b>
Average lot size		6.7	

Source : Threadneedle Pensions Ltd

Property Yield		Voids as % of ERV	
Net initial yield	5.80%	Investments	7.60%

Nominal equivalent yield	0.00%	Developments	0.00%
True equivalent yield	7.00%	Total	7.60%
Net reversionary yield	6.56%		

Source : Threadneedle Pensions Ltd

#### Rental income & ERV by type of property

	Rental income %	Estimated rental value %
Standard retail	9.9	6.4
Retail warehousing	14.3	11.5
Shopping centres	3.7	3.7
Central London offices	13.4	13.9
Other offices	18.7	24.6
Industrial	34.1	35.4
Other	5.8	4.5
<b>Overall</b>	<b>100.0</b>	<b>100.0</b>

Source : Threadneedle Pensions Ltd

#### 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	11.5	-	-	0.4	(1.2)	-	-	72.3
Retail warehousing	16.7	-	-	0.3	(2.8)	-	-	89.1
Shopping centres	4.4	-	-	0.4	(0.5)	-	-	111.5
Central London offices	15.7	-	-	1.4	(0.6)	-	-	115.7
Other offices	21.8	-	-	4.2	(1.4)	-	-	146.4
Industrial	39.8	-	-	1.6	(1.7)	-	-	115.4
Other	6.8	-	-	0.2	(1.4)	-	-	85.0
<b>Overall</b>	<b>116.8</b>	<b>-</b>	<b>-</b>	<b>8.4</b>	<b>-9.7</b>	<b>-</b>	<b>-</b>	<b>111.3</b>

\*Comprising the ERV of developments in progress or contracted which have not been pre-let

Source : Threadneedle Pensions Ltd

#### Listed Investments

	% of Issue held	Valuation (GBPm)	Est. % of total portfolio
0	0.0	0.0	0.0
0	0.0	0.0	0.0
0	0.0	0.0	0.0
0	0.0	0.0	0.0
0	0.0	0.0	0.0
	0.0	0.0	0.0

#### The unexpired term of leases

Years	% of rent passing
20 years or greater	0.9
15 years or greater, but less than 20	4.2
10 years or greater, but less than 15	6.1
5 years or greater, but less than 10	20.3
Less than 5 years	68.5

Source : Threadneedle Pensions Ltd

#### Joint and Indirect property holdings

Holdings	Sector	Joint/Indirect	Vehicle Type	Ownership %	Valuation	Est. % of total portfolio
Low Carbon Workplace Trust	-	Indirect	CEPUT	18.2	46.7	2.5
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-

Source : Threadneedle Pensions Ltd

#### Debt analysis

Fixed rate borrowings		
Amount drawn (GBPm)	Average rate (%)	Average unexpired term (years)
0	0	0
0	0	0
0	0	0
0	0	0
0	0	0

Source : Threadneedle Pensions Ltd

Variable rate borrowings		
Amount drawn (GBPm)	Rate above LIBOR (incl expenses) (%)	Off balance sheet debt (GBPm)+
0	0	0
0	0	0
0	0	0
0	0	0
0	0	0

## Development exposure\*

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

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

Source : Threadneedle Pensions Ltd

## Valuations/performance monitors/affiliations

Frequency of valuation	Monthly
Valuers	CBRE Limited
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 : Threadneedle Pensions Ltd

## Restrictions on holdings of cash/borrowings

Maximum total gearing permitted	*
Cash holdings (maximum)	*
Cash holdings (minimum)	*

Source : Threadneedle Pensions Ltd

## The contribution of major tenants to rental income

Tenant	%
LIBERTY GLOBAL PLC	2.7
HANSON QUARRY PRODUCTS EUROPE LTD	2.1
MAGNET LTD (NOBIA AB)	1.9
Nike (UK) Limited	1.8
Travis Perkins	1.7
Co-operative Group Ltd	1.5
J Sainsbury PLC	1.5
John Lewis PLC	1.5
Next PLC	1.4
XPO Logistics	1.3
Three largest tenants' contribution to rental income	6.7
Five largest tenants' contribution to rental income	10.2
Ten largest tenants' contribution to rental income	17.4

Source : Threadneedle Pensions Ltd

## Balance sheet/gearing

	Direct holdings	Joint holdings	Indirect investments	Listed investments	Total
Balance sheet (GBPm)					
Properties at valuation	1836.9	0.0	46.7	0.0	1883.7
Listed investments	0.0	0.0	0.0	0.0	0.0
Debt	0.0	0.0	0.0	0.0	0.0
Cash	191.9	0.0	0.2	0.0	192.1
Other net assets/liabilities	-27.4	0.0	-0.6	0.0	-28.0

Total net assets	2001.5	0.0	46.3	0.0	2047.8
Gearing (%)					
Net debt (cash)/properties	-10.4	0.0	-0.4	-	-10.2
Net debt (cash)/equity	-9.6	0.0	-0.4	-	-9.4

Source : Threadneedle Pensions Ltd

Quarterly data per unit						
As at	30-Sep-18	31-Dec-18	31-Mar-19	30-Jun-19	30-Sep-19	31-Dec-19
Bid (GBP)	*	*	*	*	*	*
Offer (GBP)	*	*	*	*	*	*
Mid (GBP)	*	*	*	*	*	*
Bid/offer spread	*	*	*	*	*	*
Net asset value (GBP)	6.88	6.97	7.00	7.03	7.07	7.11
Quarterly distribution (GBP)	8.83	10.63	2.3	5.66	7.64	8.56
Yield	-	-	-	-	-	-

Source : Threadneedle Pensions Ltd

## Unit pricing

The unit price is calculated daily at midday as a semi-swinging single price. The single price is net asset value unless the net cash inflow/outflows at the fund level exceed GBP10,000, in which case a dilution levy is applied. The dilution levy is 5.8% for inflows and 1.2% for outflows.

## Distributions

The fund does not distribute income. Its gross income is reinvested in the fund.

## Minimum investment/disinvestment

There is no minimum level of initial investment in, or of divestment from the fund.

## Creation, transfer and realisation of units

Units may be created at any time at the discretion of the manager, subject to written notification no later than 11am on the day of the transaction.

Units may be redeemed at any time on receipt of written notification by the manager no later than 11am on the day of the transaction.

The manager has the right to delay redemptions for up to a maximum of 12 months in the event of there being insufficient cash in the fund.

## Taxation

CGT and income tax: the fund is exempt from UK capital gains tax and UK income tax.

Stamp duty reserve tax: transfers of units do not attract SDRT.

## Charges

Management charges vary in the range 0.45% pa to 0.95% pa, depending on the type of pension fund (defined benefit or defined contribution) and according to the size of the funds invested. Typically, the fee for a defined benefit client is 0.75% pa.

Unit holder analysis		
	Number of unitholders	Total % held
Less than 1% of units in issue	43	9.4
1% or greater but less than 2%	9	10.8
2% or greater but less than 4%	7	16.2
4% or greater but less than 8%	5	20.3
Greater than 8.0%	3	43.2
<b>Total</b>	<b>67</b>	<b>100.0</b>
Major investors		
Largest holder	1	21.3
Three largest holders	3	43.2
Five largest holders	5	52.9
Ten largest holders	10	69.6
Internal/external investors		
Internal	0	0.0
External	67	100.0

Source : Threadneedle Pensions Ltd

## Liquidity

Period	Year to Dec 2014	Year to Dec 2015	Year to Dec 2016	Year to Dec 2017	Year to Dec 2018	Year to Dec 2019
<b>Issues and redemptions</b>						
Units in issue as at start of period	271,931,384	292,058,208	296,989,016	290,410,155	295,601,272	296,753,164
Units issued during period	48954366	21,869,919	62,660,138	32,321,257	32,985,003	19,319,637
Units redeemed during period	-28,827,541	-16,939,111	-69,238,999	-27,130,140	-31,833,111	-26,046,871
Units in issue at end of period	292,058,208	296,989,016	290,410,155	295,601,272	296,753,164	290,025,930
<b>Unit transfers</b>						
Matched bargains	-	-	-	0	0	0
Matched bargains %*	-	-	-	0.00%	0	0.00%

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

Source : Threadneedle Pensions Ltd