

QUESTIONS & ANSWERS

DEALING SUSPENSION

Threadneedle Pensions (TPEN) Property Fund

INTRODUCTION

To protect the interests of investors, Columbia Threadneedle Investments has temporarily suspended dealing in the Threadneedle Pensions (TPEN) Property Fund from 12 noon on 20 March 2020. This means investors are currently unable to buy or sell shares in the Fund.

Any requests to transact after 11am on 19 March 2020 have not been actioned and new requests will not be accepted. This decision has been taken by the TPEN Board. The Prudential Regulatory Authority (PRA) and the Financial Conduct Authority (FCA) have been notified.

1. Which fund have you suspended dealing in and from what date?

We suspended dealing in the Threadneedle Pensions (TPEN) Property Fund from 20 March 2020.

2. Why have you decided to suspend dealing?

Our independent property valuer, CBRE, has deployed a 'market uncertainty clause' which means that it is unable to provide an accurate valuation of the Fund's assets in the current market environment. As a result, we have suspended the Fund until such time that an accurate valuation can be ascertained. The decision was made with the aim of preventing any policyholders being disadvantaged by those redeeming or investing in the Fund at an inaccurate price.

3. Who made the decision to suspend dealing?

The decision has been taken by the TPEN Board. The Prudential Regulatory Authority (PRA) and the Financial Conduct Authority (FCA) have been informed.

4. I saw you recently suspended the Threadneedle UK PAIF. Why did you not suspend TPEN Property as soon as you were notified of the situation by CBRE?

The suspension of the Threadneedle UK Property Authorised Investment Fund was consistent with the FCA's upcoming rules, which require a fund to suspend immediately if there is material uncertainty in the valuation of more than 20% of its assets.

In deciding on whether to suspend the TPEN Property Fund, we needed to follow a different approval process, including careful consideration of the decision from CBRE on the valuation of the Fund at our Fund Pricing and Dealing Committee and subsequently convening the TPEN Board. Following this analysis, we concluded that suspension was the most appropriate action and in the best interest of investors.

5. Why are the valuers not able to provide a valuation of the assets?

Due to the Coronavirus (COVID-19) and the resulting uncertainty on markets and economies, our independent valuers, CBRE, believes it is unable to value the assets of the fund. Valuations typically rely on recent property sales; however, market activity is being impacted in many sectors. As a result, CBRE considers that it can attach less weight to previous market evidence for comparison purposes, to inform opinions of value and that the current response to COVID-19 means that it is faced with an unprecedented set of circumstances on which to base a judgement.

6. Was the Fund suspended because of outflows?

No, the Fund was suspended because of uncertainty in the value of its assets.

7. When will you start dealing in the Fund again?

When our independent property valuer, CBRE, can give an accurate valuation of the assets in the Fund. We do not have an estimate of when that will be.

8. Is the Fund still being priced?

Yes, during the period of suspension, we will continue to value the Fund and calculate a daily price, which will be published on our website. However, investors should note that there is a degree of uncertainty due to the current market environment and whilst the Fund is suspended.

9. Can I still receive a valuation while the Fund is suspended?

Yes, you can still receive a valuation. However, policyholders should note that there is a degree of uncertainty due to current market conditions.

10. Are you charging fees while the Fund is suspended?

Yes, as we continue to manage the Fund it will continue to accrue fees, but they will not be paid to us until the Fund returns to normal daily dealing.

11. Will distribution payments and reinvested income continue?

Distribution payments will still be made; however, they cannot be reinvested in the Fund while it is suspended.

12. What is Columbia Threadneedle's view on UK commercial property?

Despite the yield compression witnessed over the past few years, the gross income yield of 5.0% offered by UK commercial property (MSCI UK Monthly Property Index) remains attractive to investors. Income is once again providing the core component of the total return, in line with the long running average. Since 2000, 70% of the total return (according to the MSCI UK Monthly Property Index) has been provided by income and hence our investment philosophy focuses on buying good quality assets let to sustainable tenants off sustainable rents. While property returns are continuing to moderate, the case for UK real estate property remains compelling on both an income and portfolio diversification basis.

13. What is the current strategy and positioning of the Fund?

- Columbia Threadneedle's investment philosophy takes a long-term view and is income led. We have an inherent preference for income-focused investment portfolios that are highly diversified by sector, geography and sheer volume of properties and tenancies, in order to mitigate risk.
- The Fund has strong diversification at both portfolio (c.1635 tenancies and 273 properties) and investor levels.
- The strategic portfolio positioning has focused on the strongest underlying sub-sectors, with around 41% of direct property exposure to the industrial sector. This is significantly overweight versus the MSCI UK Monthly Property Index.
- The portfolio has an average lot size of c.£6.8 million, which can aid liquidity.
- In addition, there is significant unrealised potential to add value through pro-active asset management across the portfolio, despite the potential challenges of a post Brexit occupational market.
- The Fund has no exposure to property company shares, speculative property development and zero property-level debt.
- The Fund also has a significant income yield advantage (c.80 basis points) versus the MSCI UK Monthly Property index (5.8% vs 5.0%).

14. Will you contact me once the Fund is open again?

Yes, we will communicate to you when the Fund returns to normal daily dealing and also publish a note on our website. In the meantime, please contact your Relationship Manager if you have any questions.

15. What is the current cash balance in the Fund?

The last published figure was 9%.

16. What is the AUM of the Fund?

The last published AUM was £2,047 million.

17. Will any of your other commercial property funds need to suspend for the same reason?

We suspended dealing in the Threadneedle UK Property Authorised Investment Fund and its feeder fund, the Threadneedle UK Property Authorised Trust, on 18 March 2020.

All data as at 31 December 2019. Source: Columbia Threadneedle Investments; MSCI UK Monthly Property Index.

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