



**Isle of Wight Council Pension
Fund Schroder UK Real
Estate Fund (SREF)**

Isle of Wight Council Pension Fund - Real Estate Portfolio

Review

Performance and market review to September 2020

SREF's performance in the year to September 2020 was above benchmark, as shown below. This outperformance is a result of the quality of SREF's portfolio, the resilience of the Fund's income return (attributable to strong covenants, a diverse occupier base and strong reversionary potential), and asset management achievements. Despite COVID-19 uncertainty, since the start of March to end September and since period end, SREF completed 98 leasing transactions and rent reviews across the portfolio, delivering £13.0 million of additional income per annum in aggregate. We also exchanged an agreement for lease with the UK Government at Ruskin Square, Croydon, which is now unconditional and will deliver a further £11.1 million of contractual income per annum on completion. This takes the aggregate total increase in contracted income to £24.1 million per annum, equating to a 24.5% uplift in contractual income on 2019 annual levels.

Isle of Wight Council Pension Fund Real Estate net performance to 30 September 2020 (% pa)

	YTD	12 months	3 years	Inception*
Property Portfolio	-1.73	-1.32	4.01	9.04
Benchmark**	-2.99	-2.67	3.05	8.06

Discrete annual net performance

Performance (%)	Q4 18	Q4 17	Q4 16	Q4 15	Q4 14
	Q4 19	Q4 18	Q4 17	Q4 16	Q4 15
SREF	2.1	7.3	11.1	4.7	14.2
Benchmark**	1.6	6.5	10.2	2.8	12.5

Past performance is not a guide to future performance and may not be repeated. The value of investments and the income from them may go down as well as up and investors may not get back the amount originally invested. Performance is calculated on a net asset value (NAV) to NAV price basis plus income distributed, compounded monthly, net of fees, gross of tax and based on an unrounded NAV per share.

*Isle of Wight inception date 31 August 2009. **Client Benchmark: AREF/IPD UK Quarterly Property Fund Index All Balanced Fund Median.

Fund suspension

The subscription and redemption of Shares in the Schroder UK Real Estate Fund and Units in the Schroder UK Real Estate Fund Feeder Trust was suspended on and from midday 18 March 2020. The decision to suspend dealing was taken in the interests of all investors due to the material uncertainty of the end-March property valuations. SREF's independent valuers removed the remaining material uncertainty clauses with respect to the 1 October 2020 valuation of SREF's property portfolio. The Fund is now able to strike a sufficiently reliable NAV to support dealing in SREF. The Authorised Corporate Director and the Depositary confirmed the Suspension was lifted, effective on and from 1 October 2020.

Portfolio activity

In September, SREF announced a forward commitment to develop a new £45 million Grade A office building at One Cambridge Square, situated within the mixed-use 34-acre urban quarter of Cambridge North. One Cambridge Square will form part of a wider redevelopment of Cambridge North, with the masterplan encompassing 1 million sq ft of new office space, a 217-room Novotel hotel due to open Q4 2020 and 900 residential units. A new high street boulevard of leisure and retail amenities, a public square, parks and a school will also be developed. SREF also has a pre-emption over the next two office development phases.

Post quarter end, in October, the Fund completed the sale of Electra Business Park in Canning Town, East London, to Segro for £133 million, reflecting a 2.58% NIY and capital value of £586 per sq ft. The net premium of £32.7 million

above the 1 October 2020 valuation will be reflected in SREF's Q4 performance. The disposal is in line with SREF's strategy to divest out of low yielding assets where the business plan has completed, and reinvest proceeds into higher yielding assets and assets set to deliver premium returns.

Outlook

The Fund continues to maintain a structural underweight position to retail to enhance the portfolio's defensive quality, with strategic focus on secure long-income office assets alongside those in key London sub-markets and regional centres which target growing technology and life sciences occupiers. Going forward, there will be a continued emphasis on the pro-active management of the Fund's current industrial allocations, and sustainable investment to support outperformance. We expect SREF's resilient income profile, our active engagement with tenants and the inherent opportunities across the portfolio to continue to drive returns.

Important Information

Risk factors

- Property-based pooled vehicles, such as the Fund, invest in real property, the value of which is generally a matter of an independent valuer's opinion.
- The price of shares and the income from them may fluctuate upwards or downwards and cannot be guaranteed.
- It may be difficult to deal in the shares of the Fund or to sell them at a reasonable price because the underlying property may not be readily saleable, or because valuations may not be reliably determined in unusual market circumstances - thus creating liquidity risk. In addition, the payment of redemptions may be deferred for a maximum period of 24 months from the original Dealing Day for Redemption.
- There is no recognised market for shares in the Fund and, as a result, reliable information about the value of shares in the Fund or the extent of the risks to which they are exposed may not be readily available.
- A potential conflict with the Manager's duty to the shareholder may arise where an Associate of the Manager invests in shares in the Fund. The Manager will, however, ensure that such transactions are effected on terms which are not materially less favourable to the shareholder than if the potential conflict had not existed.

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