

SCHRODERS CAPITAL UK REAL ESTATE FUND (SCREF) PERFORMANCE SUMMARY

Isle of Wight Council Pension Fund

Performance summary

SCREF had a strong absolute total return in Q1 of 5.2% and NAV growth of £108.8 million. This performance is despite £4.7 million of transaction cost associated with the acquisition of The Brewery in Romford.

SCREF's performance during the quarter was derived principally from:

- Capital value growth of £90.2 million mainly driven by yield compression in retail warehousing, industrial assets, and long leased office assets
- Active asset management: 32 new lettings, lease renewals and rent reviews completed
- Agreement for lease also exchanged with DPD for a new 58,320 sq ft industrial unit at Wolverhampton for a 25 year lease at £0.96 million per annum
- Contracted rent increase of £1.92 million from completed leasing activity and the exchanged agreement with DPD
- BREEAM in-use certification achieved at the University of Law campus.

Detractors to SCREF's quarterly performance were:

- £4.7 million of transactions costs associated with the acquisition of Romford
- 11.4% underweight in industrials (against Q1 benchmark)
- 3.1% underweight in retail warehousing (against Q1 benchmark).

SCREF's performance outlook:

- High quality portfolio generating defensive income: 47.3% in London and the southeast, 31.7% let to government or higher education, low void rate at 7.0%, long unexpired lease term of 8.5 years to break.
- Well hedged against inflation – 16.1% contracted income with index-linked reviews, increasing to 25.4% on completion of 2 Ruskin Square.
- SCREF's office exposure is set to benefit from the polarisation between demand for prime offices and more secondary offices with 95.7% of SCREF's offices located in winning cities and 9.4 years unexpired to earliest termination. As a result, we expect the Fund's office sector performance to recover more quickly and more strongly than the benchmark.
- SCREF has proactively fitted-out space in four buildings to meet evolving tenant requirements and to provide greater flexibility in exchange for rent premiums and reduced incentives.

- Increasing exposure to industrial sector and income via development of existing industrial assets and consideration of selective acquisitions.

Performance (%)	3 months	12 months	3 yrs (p.a.)	5 yrs (p.a.)
SCREF ³	5.2	19.5	7.9	8.2
Benchmark ⁴	4.0	20.9	7.4	7.6

Performance (%)	Q4 20 Q4 21	Q4 19 Q4 20	Q4 18 Q4 19	Q4 17 Q4 18	Q4 16 Q4 17
SCREF ³	16.9	0.3	2.6	8.0	11.3
Benchmark ⁴	18.8	-1.2	2.1	7.0	10.6

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.

Source: MSCI. ³Performance is calculated on a NAV to NAV price basis plus income distributed, compounded monthly, net of fees, gross of tax and based on an unrounded NAV per share.

⁴MSCI/AREF UK Quarterly Property Fund Index All Funds Median. The Property benchmark since inception is calculated by chain linking the quarterly benchmark returns and using a proxy for the period 31 August 2009 to 30 September 2009.

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.

Additional comments

- **Marketing passports** - SCREF has successfully re-applied for select European marketing passports, during the quarter permissions have been received from Korea and Japan.
- **Prospectus updates** – On 3 March 2022, SCREF's Prospectus was updated to incorporate the following three amends:
 - 1. The inclusion of binding environmental, social and governance (“ESG”) commitments into the PAIF's investment policy;
 - 2. Updating the name of the Fund in line with the new 'Schroders Capital' brand which is being rolled out across Schroders' private assets product range; and
 - 3. Amending Appendix V of each of the PAIF and Feeder Fund Prospectus to reflect the revised leverage limits, effective 9 July 2021, which enable the Fund to draw on its Revolving Credit Facility ('RCF') to fund further development at Ruskin Square, Croydon, where Building 2 has been pre-let to the UK Government.
- **Liquidity management** – SCREF has completed £70 million of secondary market transactions over the year to date.

Important information

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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.

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