LOTHBURY Investment Management

Lothbury Property Trust

Fund Description

Lothbury Property Trust is a sub-fund of Lothbury Global Institutional Funds (LGIF), an umbrella unit trust. On 25 March 2014, LGIF was authorised as a Qualifying Investor Alternative Investment Fund.

Lothbury Property Trust as a sub-fund of LGIF is authorised by the Irish Central Bank under section 4 of the Unit Trusts Act, 1990.

Fund Objectives

The Fund's Investment objective is to provide investors with capital appreciation and secure income returns, through prudent investment in assets across the UK's principal property sectors and geographic regions. It holds property investments which are readily saleable in the open market, with a core portfolio of prime assets to achieve stable returns, combined with active management initiatives to add value and enhance returns. The Fund can own property directly or through holding units in Property Unit Trusts.

Fund Data

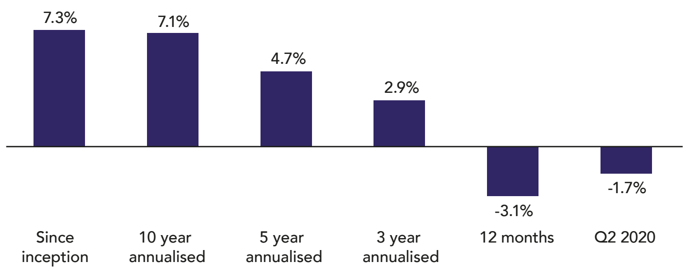
As at 30 June 2020

Indicative Net Asset Value	£1,592,997,795.60**
Indicative Net Asset Value per Unit	£1,867.5689**
Subscription Price per Unit	Trading suspended
Redemption Price per Unit	Trading suspended
Quarterly Distribution per Unit	£11.41

** The indicative valuation is provided for information purposes only and does not constitute an official net asset value for LPT, the calculation of which has been temporarily suspended for the reasons set out in the notice to unitholders on the 22 May 2020.

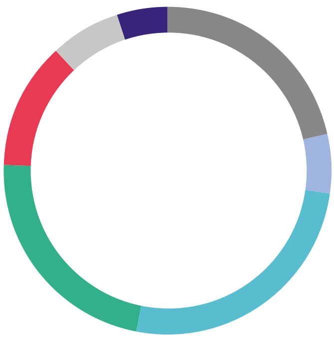
Fund Returns

As at 30 June 2020



Sector Breakdown

As at 30 June 2020



	Lothbury Property Trust (%)
Retail	21.5
Retail Warehouse	5.8
Office	25.9
Industrial	22.4
Living / Alternatives	12.5
Undergoing change of use***	7.1
Cash	4.8

*** We have included an additional category 'Change of use to Living' to the sector weightings. The assets that fall within this category are the Clarendon Centre in Oxford and Anchor Retail Park in London, the proposed change of use to Living assumes receipt of planning permission on the basis submitted.

Note: Total percentages may be slightly higher or lower than 100% due to rounding.

Fact sheet Q2 2020

Fund management during the pandemic

The coronavirus pandemic has undoubtedly brought about changes to the way we are managing the Lothbury Property Trust (LPT) portfolio.

One of the principal challenges facing the LPT team has been the collection of the Funds rental income. There has been an increase in the number of tenants choosing not to pay their rent and to conserve their cash flows instead. Some tenants seem to be choosing this route as they are aware that the Government reduced the remedies open to landlords to recover rental arrears when they passed the UK Corporate Insolvency and Governance Bill on the 20 May 2020.

Despite the current difficulties, approximately 88% of the rental income that fell due during Q2 has been collected from the Fund's tenants. With regards to the remaining rental due, the team are continuing to agree rental payment plans with tenants and are hoping to complete most of these by the end of September.

Furthermore, some tenants have also been delaying payment of their service charges. In order to retain cash in their businesses. We have been putting much effort into collecting these and the service charge collection rate for Q2 is currently standing at 95%.

Currently, the limitations contained in the UK Corporate Insolvency and Governance Bill are in effect until the end of December 2020.

Another challenge for the team has been dealing with the increasing number of CVAs (Company Voluntary Arrangements) which are being carried out by many tenants particularly those in the retail and hospitality sectors. By undertaking a CVA, tenants are able to change their contractual obligations to their Landlords and this method is often used by tenants to rationalise their portfolios and reduce their occupational outgoings.

Despite the high level of CVAs affecting the UK property market at the current time, the Lothbury portfolio has not significantly suffered with tenants undertaking this method of restructuring. However, inevitably some properties in the portfolio have been affected by CVAs and these have included a Travelodge in Edinburgh, the Clintons retail unit in Chichester and the Outfit fashion unit at the Farnborough Retail Park. In all of these situations the tenants have chosen to remain in occupation of their premises albeit at a reduced rent.

The fact that the Fund has only been mildly affected by CVAs and administrations has contributed to the Core portfolio successfully maintaining its relatively low void rate of 2.76% at the end of the Q2. 68% of this void rate is attributed to two office buildings; one in Central Manchester and also a building in Soho Square, London W1. Since the relaxing of the national lockdown there has been a significant increase in the occupational interest for the Manchester building and it is anticipated that some of the vacant office space will be let during Q3 and Q4. The London office building is vacant as it was scheduled to undergo an extensive redevelopment next year however given the current economic situation, the redevelopment has been postponed and short term, flexible lettings are currently being sought for the building instead.

In summary, it is a challenging period for the Fund however with a strong tenant base and assets in prime locations, we are confident that we can maintain the strong rental collection rates. Furthermore, the Fund has had little exposure to tenant failures and CVA's which has meant that we are retaining the existing tenants and keeping void rate low (2.76%) on the Core portfolio.

Fund Activity

Wickes Store, Botley Road, Oxford

Despite the difficult market conditions, three strategic retail sales were made from the Fund during Q2 totalling £31.95m. The first of these was the sale of two retail units on Cheapside in the City of London which were sold for £11.5m. The units were let to Esquire Retail (trading as Clintons) and Holland & Barrett and the sale completed in May. The next sale to complete was a Wickes retail warehouse unit in Oxford which sold for £11.42m in June. Finally, a three unit retail property located in the Hertfordshire town of Berkhamsted sold in June for £9.03m. This property was let to M&S Simply Food, Costa Coffee and Pizza Express.

Due to the effect of the pandemic, rent collection during Q2 was challenging, as many businesses were closed and unable to trade. However, the Lothbury team worked closely with the Fund's tenants and as a result managed to record a rent collection rate of over 88% for the quarter with receipts updated as at 22 July 2020. Negotiations are continuing with the tenants who remain in arrears to arrange repayment plans with them.

During Q2, a number of asset management initiatives were completed across the portfolio. At the Farnborough Retail Park, the new lease to Halfords completed on the unit which Lothbury constructed for them at the Park. This allowed the tenant to move from its existing premises on the Park into this new unit, which better suited their occupational needs. Another letting was completed at the Poyle Industrial Estate, near Heathrow during Q2. This letting was completed on an older 25,000 sq ft building and represented a rental level of approximately £10 psf.

These asset management transactions across the Fund contributed to the core portfolio maintaining its exceptionally low void rate of 2.8%.

UK Property Market

There was a strong hit on the UK economy during Q2 2020 caused by the COVID-19 pandemic and subsequent lockdown restrictions. According to the first estimates, UK GDP has fallen by a record 20.4% from April to June 2020[1]. Although restrictions on economic activity are being lifted since the end of the quarter, the level of uncertainty remains high and the focus of many investors is still on safeguarding income streams from existing portfolios, with less than half of tenants having paid their rent on time on June Quarter Day[2]. Investment volumes for Q2 recorded £3.6bn, or 73% below the five-year quarterly average, which was the record low in the last 20 years of observations. Overseas investors accounted for £1.5bn of the quarterly volumes, remaining the largest buyers of real estate in Q2. Institutional UK investors accounted for £805m, the lowest volume in history of observations[3].

Investment volumes in the UK office market dropped to a record low of £1.1bn, 78% below the five-year quarterly average[3]. Turnover in Central London, traditionally the most active office market, reached just £500m with relatively smaller than normal transactions. The three largest acquisitions were conducted by overseas investors, while UK buyers were more active in smaller lot sizes[4].

The retail sector demonstrated another low volume of transactions at £637m, just slightly above the record low volumes of Q1 2020. Supermarkets accounted for most of the investments in the retail sector[3]. High street retail had a small volume of transactions, which were conducted by private investors and property companies looking at change-of-use opportunities[5].

The industrial sector, which largely remained operational throughout the lockdown, demonstrated higher activity than in other sectors, with £831m investment volume, a record 23% share of all quarterly volume. 85% of the transactions in the industrial sector were in distribution warehouses. The sector also recorded the largest transaction in the quarter, namely the acquisition of Perivale Park in Greenford, London, by SEGRO at £202m[3].

The latest MSCI UK Quarterly Property Index data shows that yields widened to an average of 4.82% after reaching its minimal since the global financial crisis levels in Q3 2018. Net initial yield in the retail sector increased by 9bps to 5.94% in Q2, industrial and office yields added 3bps each during the quarter and reached 4.40% and 4.14%, respectively[6].

Poyle, West London

1 ONS, GDP first quarterly estimate, UK: April to June 2020
2 Cushman & Wakefield: COVID-19 IMPACTS UK REAL ESTATE (Available at: https://www.cushmanwakefield.com/en/united-kingdom/insights/covid-19-impacts-uk-real-estate, accessed on 14.08.2020)
3 UK Investment Transaction Bulletin, Q2 2020, Lambert Smith Hampton
4 Central London office market report, Q2 2020, JLL
5 Shopping Centre and High Street Spotlight, Q2 2020, Savills
6 UK Quarterly Property Index, MSCI

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Data

All fund data as at 30 June 2020, unless stated otherwise.

The views expressed are those of Lothbury Investment Management Limited.

Unit Holder Information

Launch Date
2 February 2000.

Valuation Point*
11.59pm on the last Irish business day of each month.

Prospectus and Trust Deed
Copies of the Prospectus, Trust Deed and Application Form are available from Lothbury Investment Management Limited.

Subscriptions*
Monthly. Applications to be received by the last Irish business day of the month. Settlement to take place in the first week of the following month. Minimum investment is €100,000.

Redemptions*
Quarterly. Notice to be served ten Irish business days before the last Irish business day in the quarter. The unit holder will be notified of the redemption price. Redemptions paid on the last Irish business day of the following quarter.

Secondary Market Trading
Monthly. No Stamp Duty is payable on the purchase of existing units.

Distributions
Quarterly. On the last Irish business day of April, July, October and January. Charges Investment Management fee of 0.70% per annum.

* Please note that the Fund's calculation of NAV, and thereby subscription and redemptions, were temporarily suspended on 22 May 2020.

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