

# East Sussex Pension Fund

## Schroder Real Estate Capital Partners

Representing Schroders:



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**8 February 2016**



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# Business overview



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# Business overview

## Schroder Real Estate Capital Partners

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- Managed indirect real estate mandates since 1997
- £3.5 billion under management as at 31 December 2015
- £503 million traded in 2015, c. 23% via the secondary market
- Average purchase cost over five years +0.91% (to December 2015)
- 23 segregated clients
- Two closed-ended continental European funds
- Two open-ended UK funds
- Six Schroder RECaP Partnerships



Source: Schroders, December 2015.

# Business overview

## Schroder Real Estate Capital Partners Team

### Schroder Real Estate Capital Partners Team

Team (industry/Schroders experience)	Position	Responsibility
Neil Turner (21 years/10 years)	Head of Indirect Investment and Research	Business management, portfolio management & strategy
Graeme Rutter (21 years/8 years)	Head of SRECaP	Business management, portfolio management & strategy
Patrick Bone (10 years/8 years)	Portfolio Manager	Portfolio management & strategy, fund monitoring
Confidential** (15 years/0 years)	Portfolio Manager	Portfolio management & strategy, fund monitoring
Nick Prince (17 years/0 years)	Senior Fund Analyst	Fund monitoring & analysis, portfolio modelling, risk analysis
Alice Russell (0 years/0 years)	Fund Analyst	Fund monitoring & analysis, portfolio modelling, risk analysis
Marsha Reid (25 years/20 years)*	Fund Manager Assistant	Trade processing and risk monitoring
Jagjeet Kaur Saini (4 years/4 years)*	Fund Manager Assistant	Trade processing and risk monitoring

Source: Schroders, January 2016. Numbers in brackets indicate years of experience/number of years with Schroders

\* Real Estate Investment Support. \*\* Expected to join in April 2016.

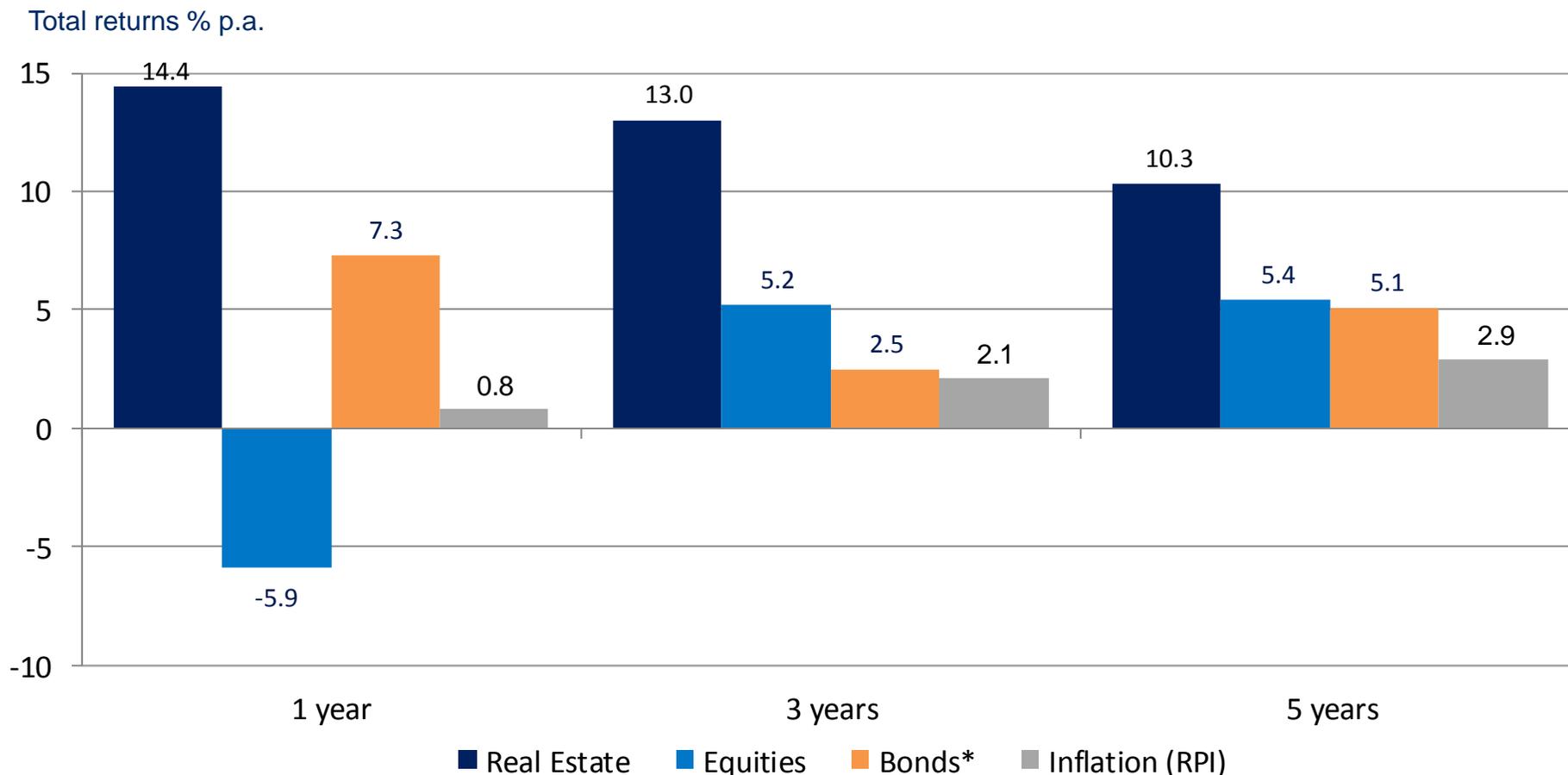
# Market overview



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# Market overview - Performance of UK assets to Q3 2015

## Strong returns from UK commercial real estate



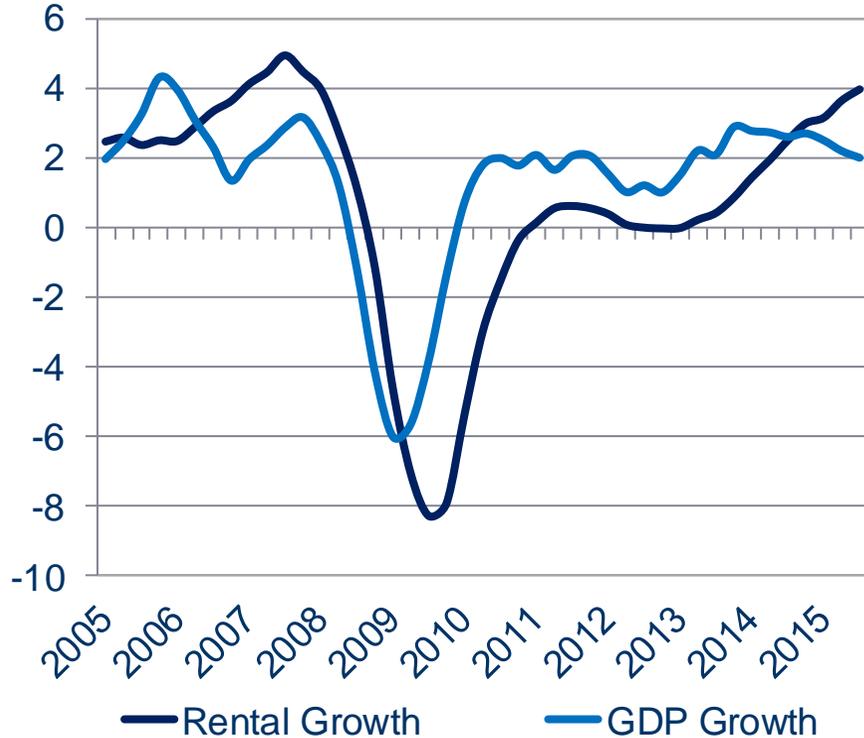
Source: IPD Quarterly ,Index, MSCI., JP Morgan 7-10 year bonds. November 2015.

# Market overview - Rental value growth

Strong occupier demand is lifting office and industrial rents across the UK

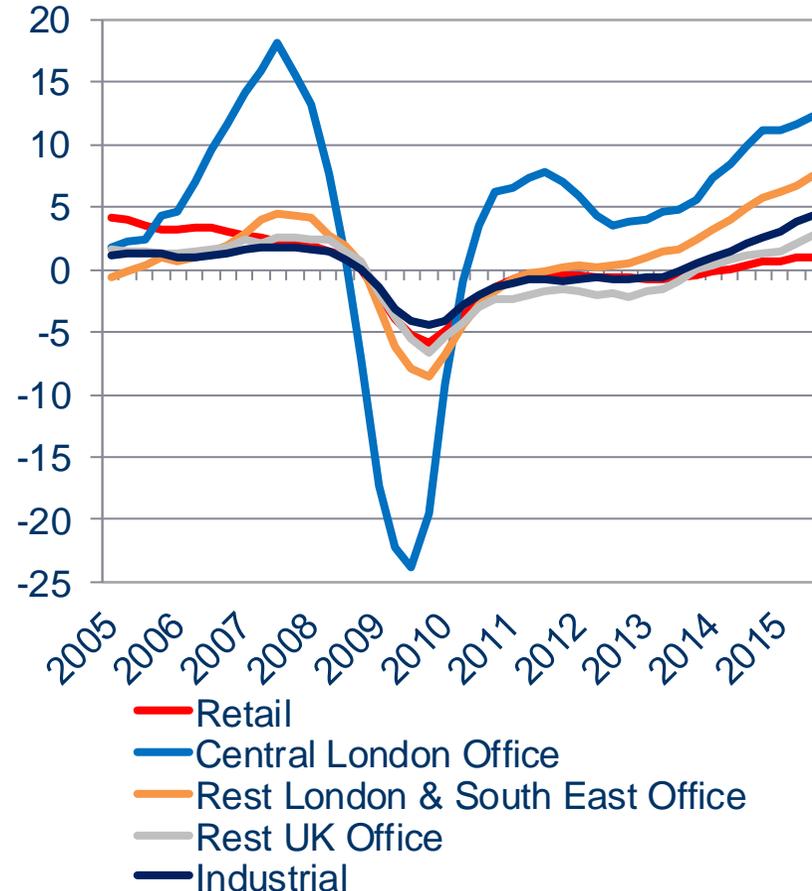
## GDP and rental growth

Annual change %



## Rental value growth by sector

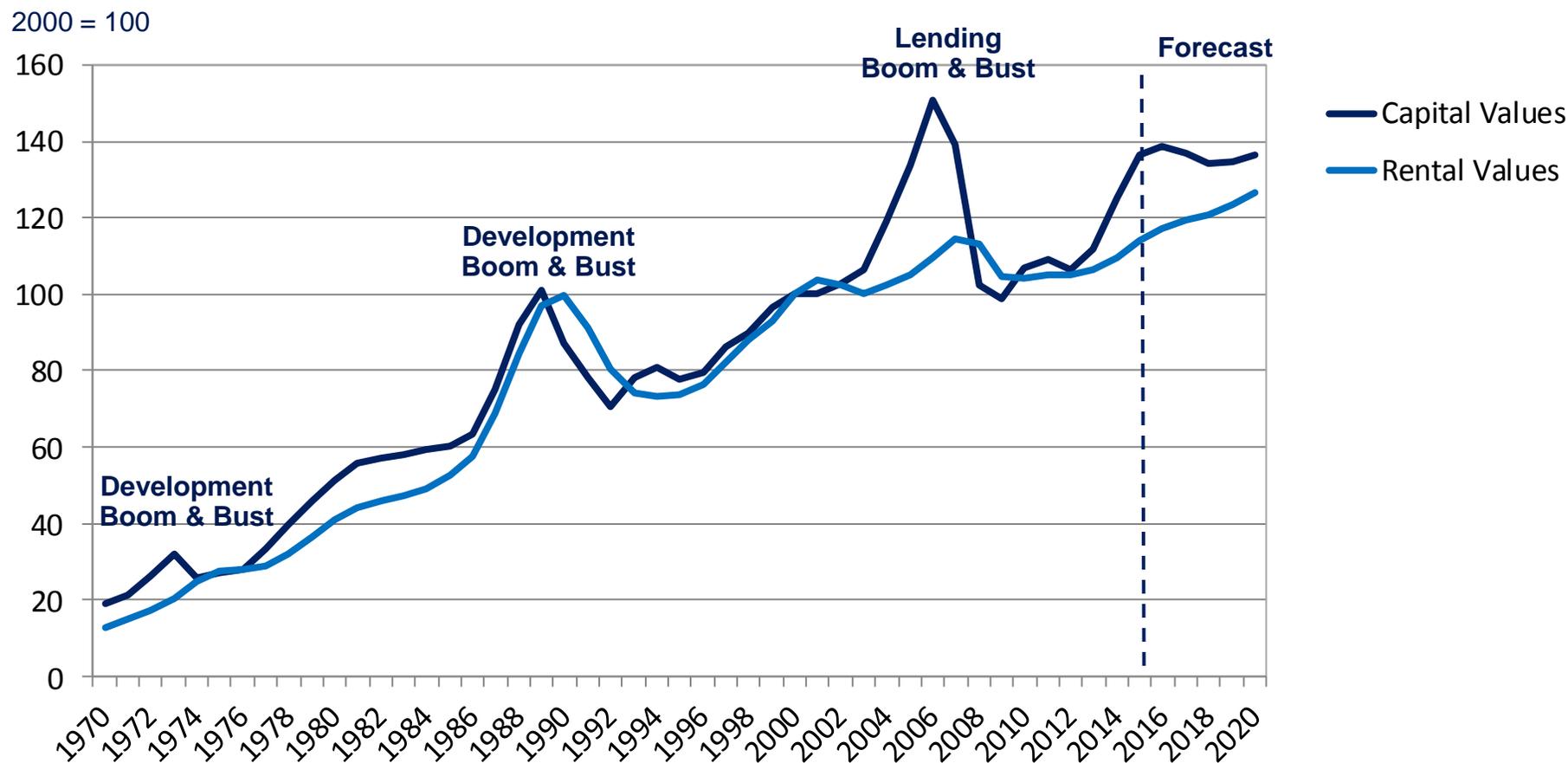
Annual change %



Source: IPD Quarterly Index, ONS. December 2015.

# Market overview – Are we at the top of a cycle?

We expect a period where rents catch up with capital values

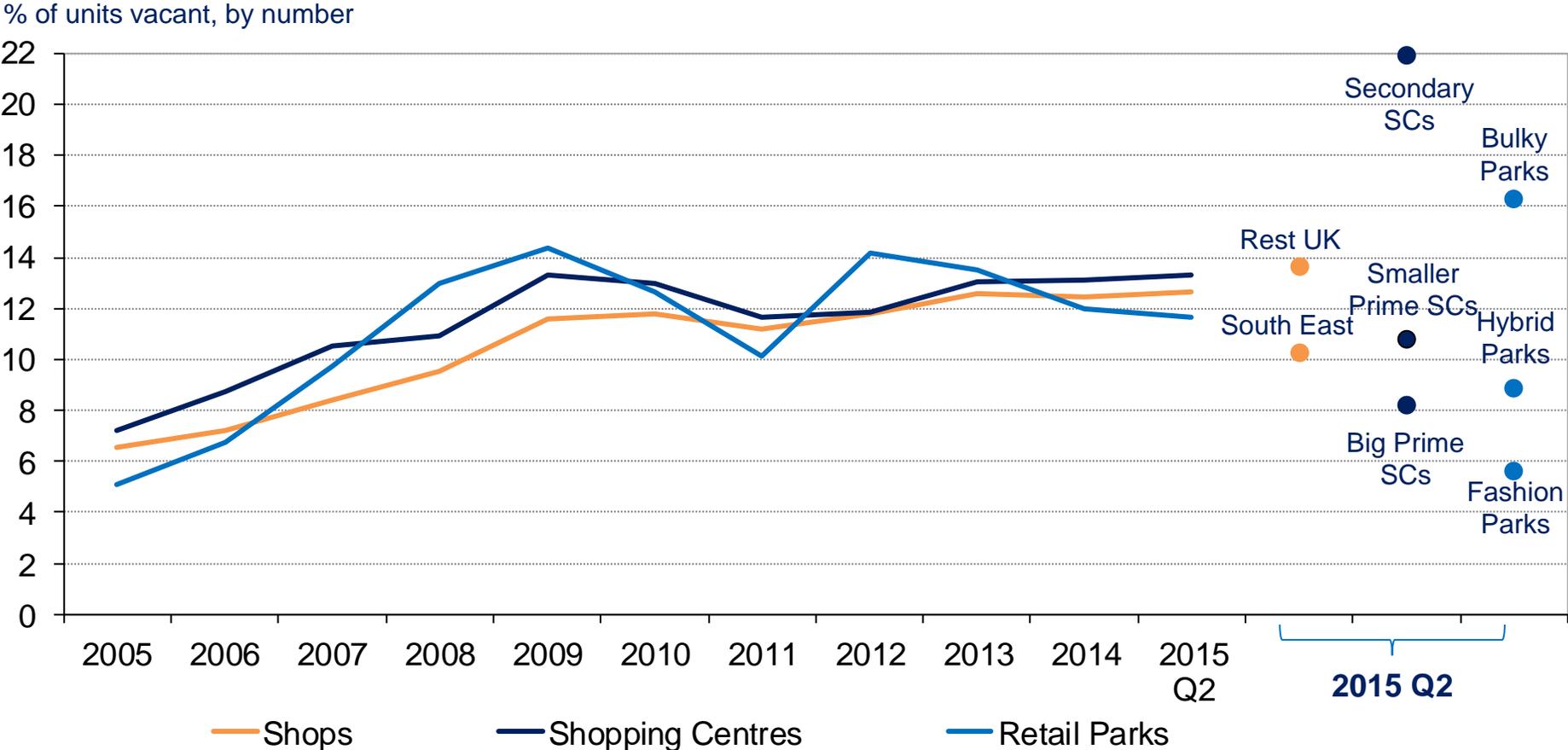


Source: IPD Annual Index, 1970-2014. 2015 -2020 figures are Schrodgers forecasts.

Note. The forecasts should be regarded as illustrative of trends. Actual figures will differ from forecasts. Please see Important Information regarding forecasts.

# Retail vacancy rates

Modest improvement in retail parks, but retail sector remains polarised



Source: PMA. August 2015.

# Central London Office supply pipeline

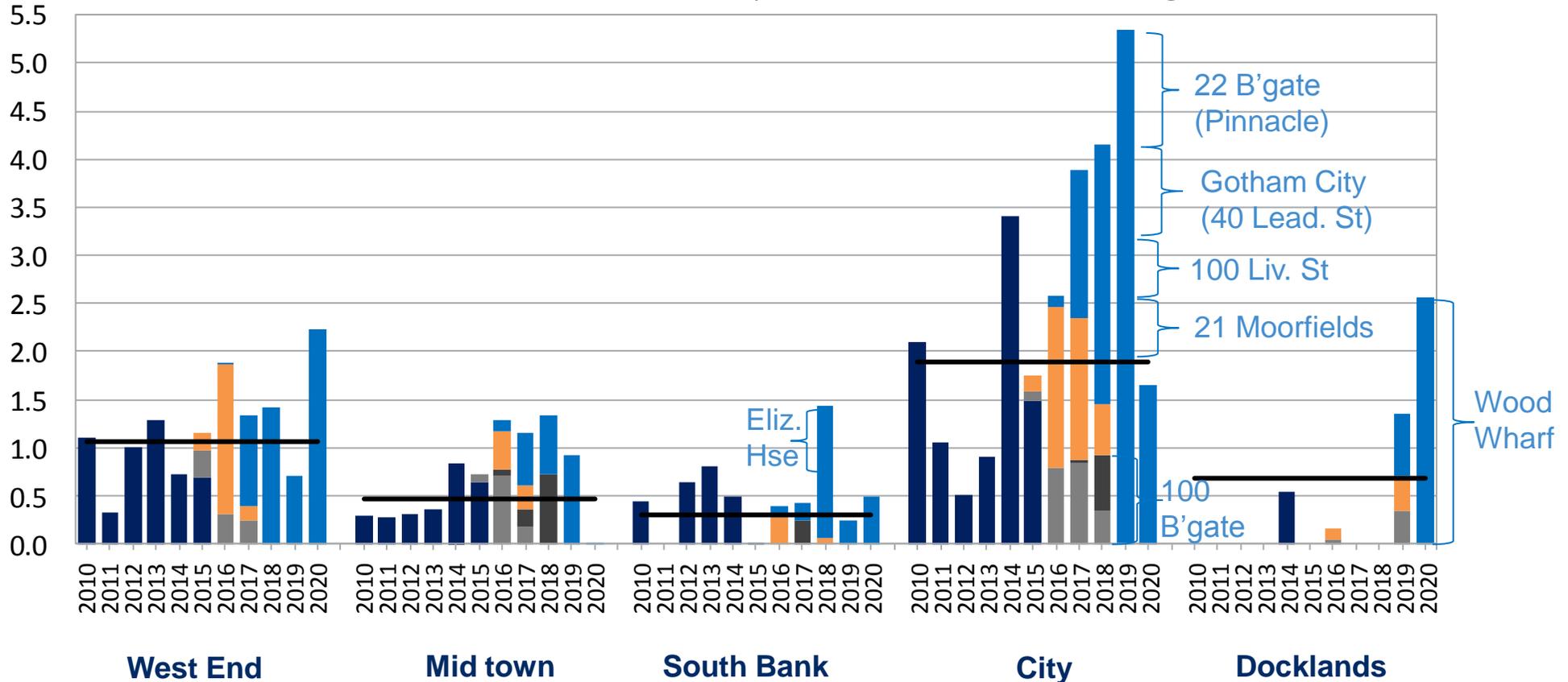
Building should be modest, except in City which will see several new towers

New office space  
Million square feet

Completed  
U/C Available

U/C Let/Under Offer  
Proposed Available

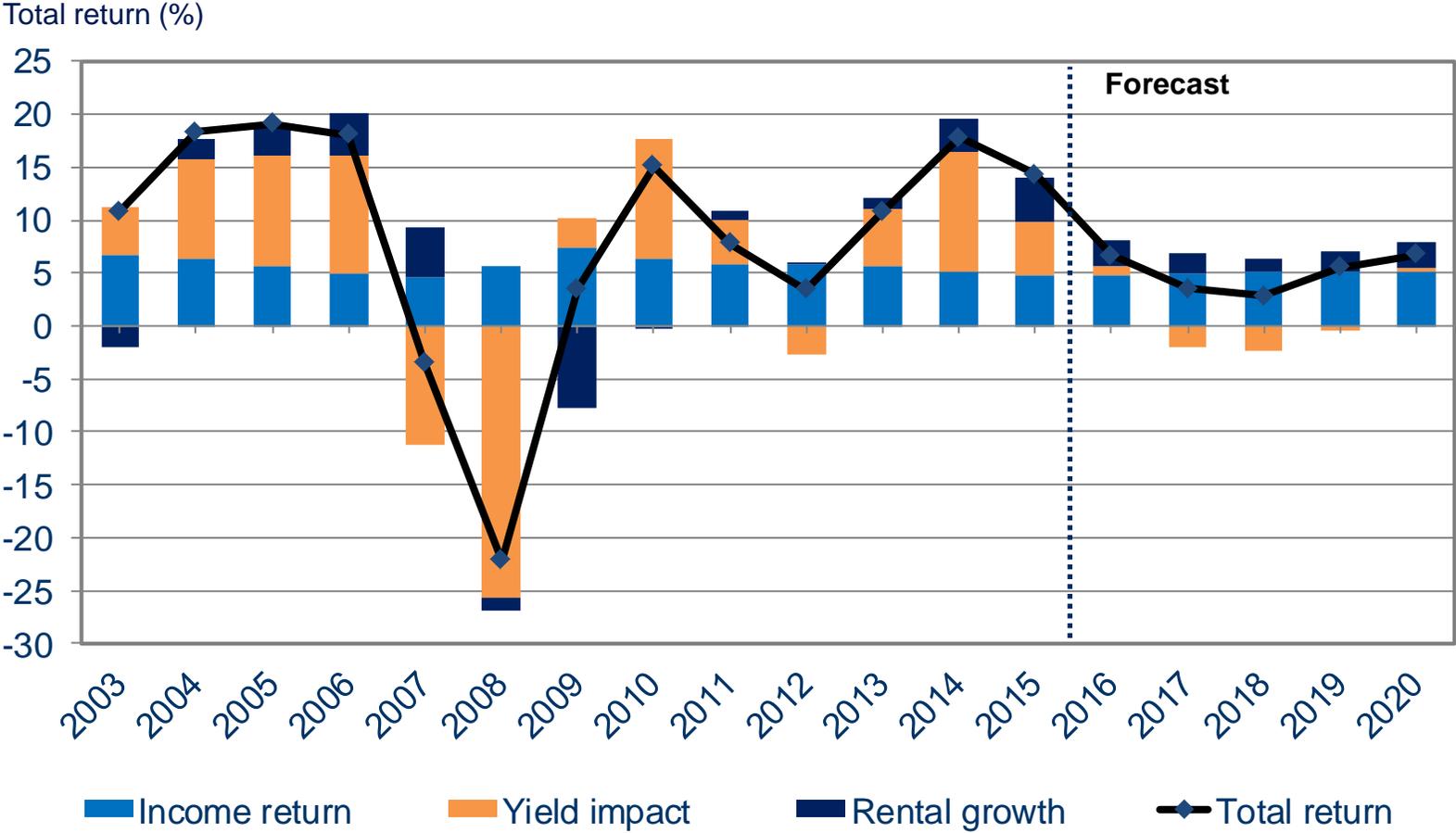
Proposed Let/ Under Offer  
Long term trend



Source: CBRE, Schrodgers. October 2015.

# UK commercial real estate market

Attractive future performance, underpinned by income return of 5%.



Source: IPD, Schroders. December 2015. Note the forecasts should be regarded as illustrative of trends. There are two key assumptions a) the UK economy continues to grow steadily and b) the UK votes to stay in the EU. Actual figures will differ from forecasts. Please see Important Information regarding forecasts.

# Portfolio

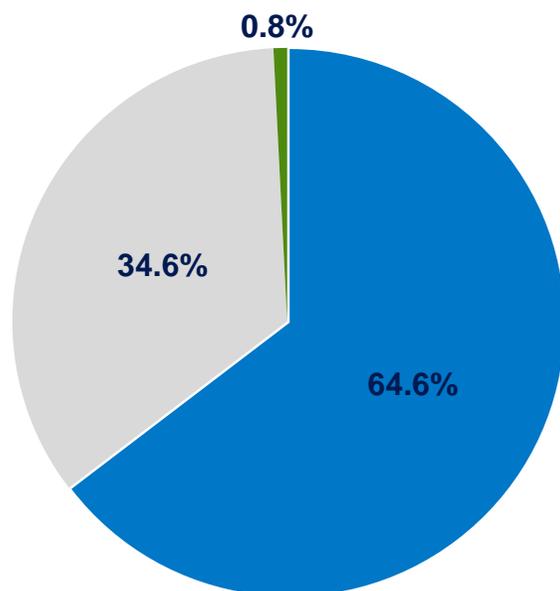


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# Portfolio - Overview

East Sussex Pension Fund, 31 December 2015

## Breakdown by style and region



■ Balanced - UK  
■ Specialist - UK  
■ Cash

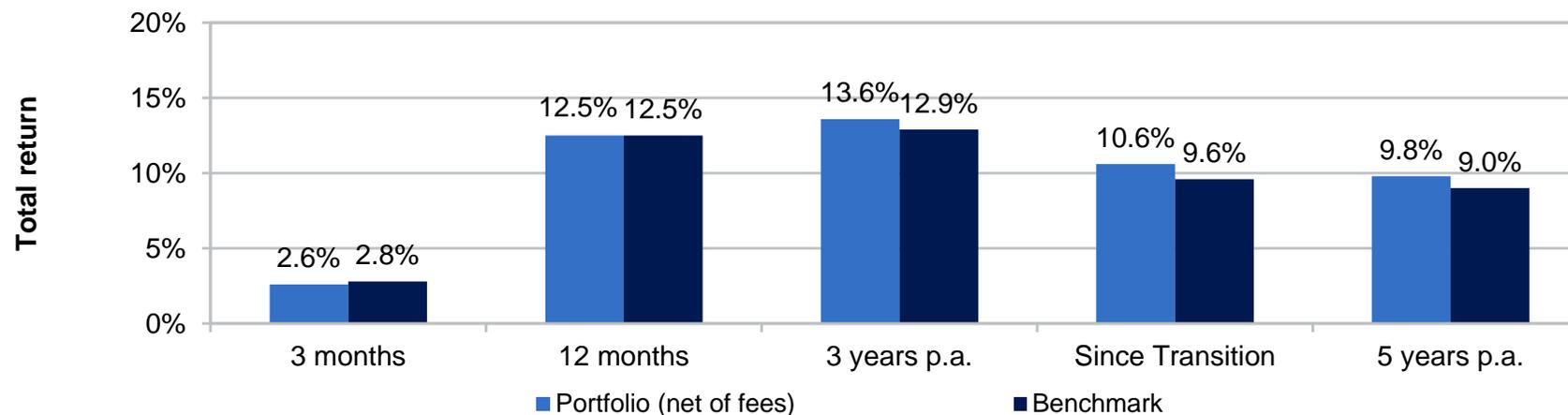
## Portfolio statistics

Portfolio valuation	£329,112,045
Number of investments	20 UK
Portfolio cash	£2,790,270
Portfolio cash (30 Sept 2015)	£13,851,192
Portfolio undrawn commitments	£2,092,433
Portfolio cash (% of NAV)	0.9%
Portfolio cash net of all commitments	£697,837
Portfolio cash net of all commitments (% of NAV)	0.2%

Source: Schroders, 31 December 2015

# Portfolio - Performance to Q4 2015

## Portfolio total returns versus benchmark, 31 December 2015



### Objective

To outperform the Benchmark<sup>1</sup> by 0.75% net of fees over three year rolling periods

### Key messages

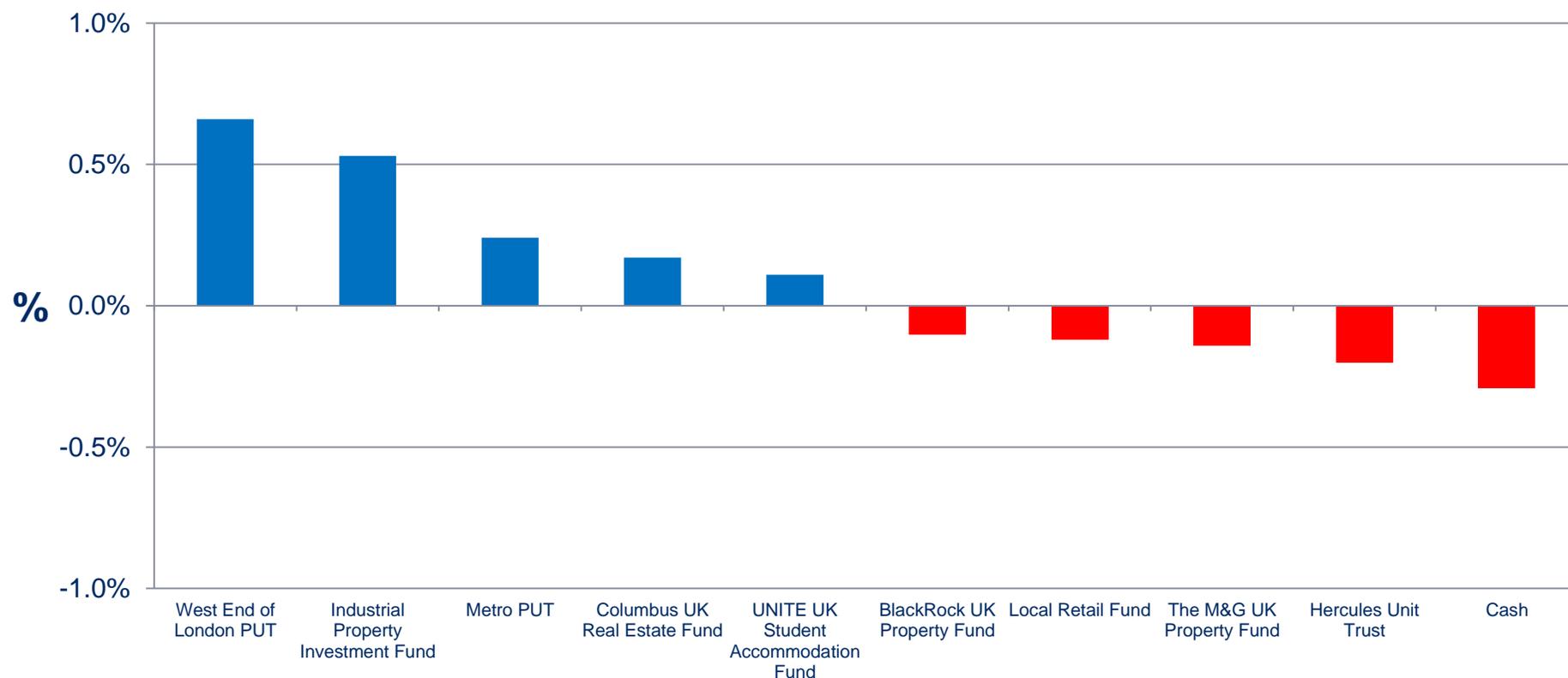
- Strong absolute returns.
- Short term performance is impacted by cash drag / transaction costs, medium and long term outperformance
- Central London offices and industrials are the strongest performing sectors, retail continues to dilute relative returns

Source: Schroders, 31 December 2015. 1 Benchmark is AREF/IPD Quarterly Property Fund Indices - All Balanced Funds (Weighted Average).

# Portfolio - Performance to Q4 2015

Performance attribution, three years to 31 December 2015

## Total return attribution relative to benchmark\* by top and bottom five contributors



\*Benchmark is AREF/IPD Quarterly Property Fund Indices All Balanced Funds Weighted Average. Attribution is presented gross of fees.

Source: Schroders and AREF/IPD Quarterly Property Fund Indices, 31 December 2015. Past Performance is not a guide to future performance and may not be repeated.

Please refer to the Important Information at the back of this document regarding past performance.

# Portfolio – Investment activity

## Q4 2015 purchases

### Industrial Property Investment Fund

- Circa £3.7m investment
- Sector specialist fund investing mainly in multi-let industrials in south east England
- Increasing exposure to the industrial sector



Festival Place, Basildon



Liberty Industrial Park, Bristol

### Multi-Let Industrial Property Unit Trust

- Circa £0.6m investment, remaining circa £0.4m commitment
- Sector specialist fund investing in smaller lot size multi-let industrials
- Increasing exposure to the industrial sector

Source: Schroders, 31 December 2015

# Portfolio – Investment activity

## Q4 2015 purchases

### Regional Office Property Unit Trust

- Circa £1.1m investment, remaining circa £1.7m commitment
- Sector specialist fund investing in smaller lot size regional offices
- Increasing exposure to the regional office sector



Aztec Centre, Aztec West Business Park, Bristol



Abbey View, St Albans

### Threadneedle Property Unit Trust

- Circa £9.2m investment
- Balanced fund investing across sectors with a generous distribution yield
- Increasing exposure to higher yielding core real estate in preferred sectors

Source: Schroders, 31 December 2015

# Portfolio – Investment activity

## Q4 2015 sales / returns of capital

### Columbus UK Real Estate Fund

- Circa £0.5m disinvestment
- Return of capital following asset sales from this opportunistic fund
- Equity continues to be returned as the fund life moves towards expiry



AMF Wallgate, Wigan



Churchill Square, Brighton

### Standard Life Investments UK Shopping Centre Trust

- Circa £0.9m disinvestment
- Final redemption proceeds from this specialist shopping centre fund
- Reducing exposure to the retail sector

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# Portfolio – EGMs

## Imminent votes on Schroder managed funds

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### **Hercules Unit Trust**

- Change of manager and change to reporting requirements

### **Mayfair Capital Property Unit Trust**

- Reduction in overall fee and minor trust amendments

### **Schroder Real Estate Real Income Fund**

- Change to investment restrictions and minor trust amendments

**As these funds are managed by Schroders we will take your instructions on how to vote to avoid any potential conflicts of interest**

# Strategy

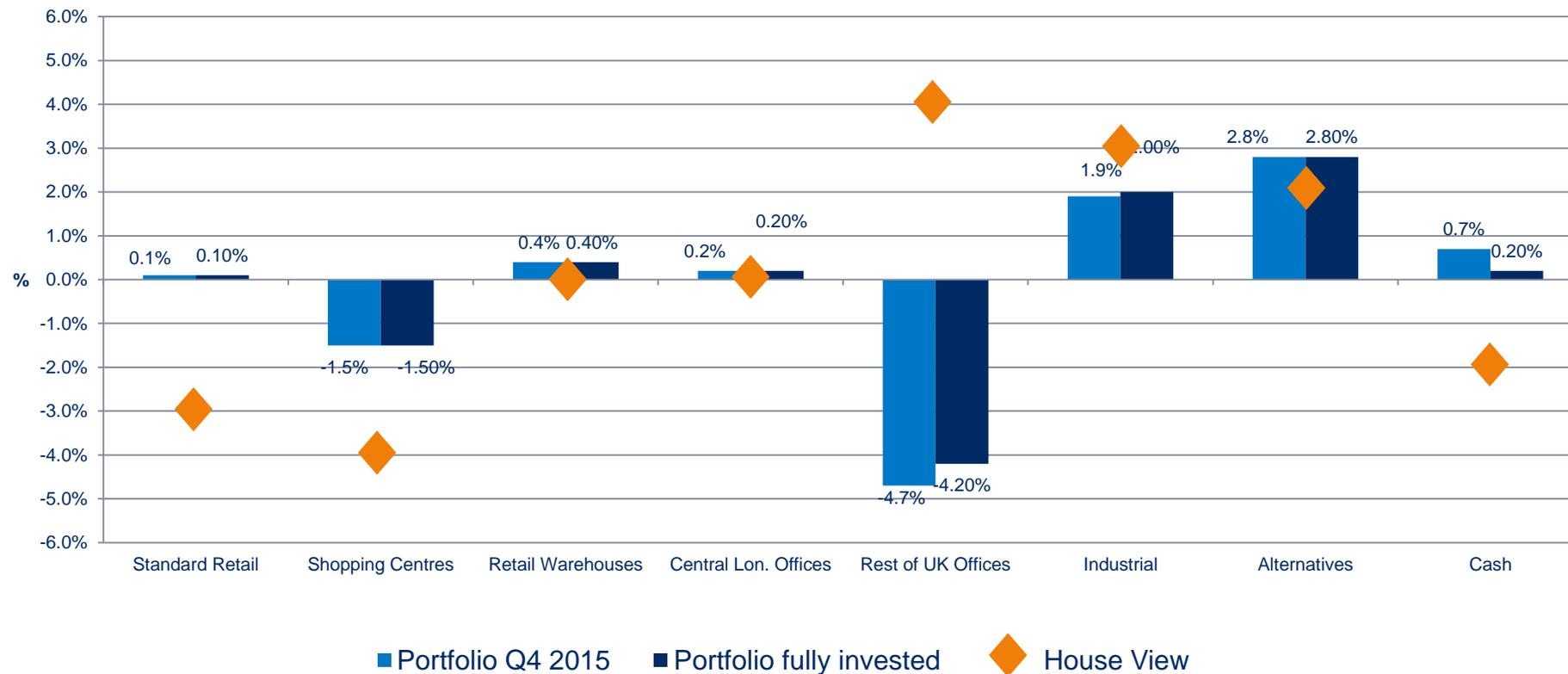


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# Strategy

## Sector weightings

### Sector weightings relative to benchmark\*



Data subject to rounding. \*Benchmark AREF/IPD UK Quarterly Property Fund Indices – All Balanced Funds Weighted Average.  
Source: Schroders, IPD, 31 December 2015.

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# Strategy

## Summary

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- High cash position has been successfully deployed in Q4.
- Proceeds from central London office and shopping centre fund sales plus distributions from opportunity funds have been allocated to regional offices and multi-let industrials.
- Accumulating income and capital distributions will be re-invested into preferred sectors and / or balanced funds.

# Appendices



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# Curriculum vitae

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## **Graeme Rutter, MRICS – Head of Schroder Real Estate Capital Partners**

- Twenty one years investment experience
- Joined Schroders in 2007
- Previously Fund Manager responsible for Morley (now Aviva) Fund Management's property multi-manager team
- 1998-2004 Director, Investment Agency, Savills
- Commenced his career at Weatherall Green & Smith, specialising in valuation, in 1994
- Member of the Royal Institution of Chartered Surveyors (MRICS), holder of the IMC and a corporate finance representative under the SFA
- Chairman of the Association of Real Estate Funds (AREF) Investor Committee; Chairman of the Investment Property Forum (IPF) Indirects Working Group
- BSc (Hons) Geography University of Bristol, Diploma in Land Economy (Commendation) University of Aberdeen



## **Lyndon Bolton – Client Director**

- Client Director in UK Institutional Sales and Client Service team. Executive Director 2001. Founder member of UK Account Management Team in January 2000. Director 1998. Joined Schroders in 1994 as Assistant Director, Head of Pooled Funds Account Management Team
- GT Management, 1990-1994, Head of UK Institutional Marketing and Client Service. Putnam International Advisors Ltd, 1988-1990, Director of European Marketing. Baillie Gifford & Co. Ltd, 1985-1988, Marketing Director. Investment career commenced in 1985
- MA (Hons) in Mediaeval History, University of St. Andrews



Source: Schroders, 31 December 2015

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# Important information

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Participation in the Schroder Real Estate Capital Partners service may involve investment in various asset classes including property equity and collective investment schemes ("Funds") within the meaning of Section 235 of the Financial Services and Markets Act 2000 ("FSMA"). Most of these Funds are not authorised unit trust schemes, OEICs or recognised schemes within the meaning of the FSMA and therefore constitute unregulated collective investment schemes. The Schroder UK Property Fund is authorised by the Financial Conduct Authority (the "FCA") as a Qualified Investor Scheme ("QIS"). Only investors that meet the requirements for eligibility to invest in a QIS, as specified in COLL 8, Annex 1, of the FCA's Handbook may invest in Schroder UK Property Fund

Investors and potential investors should be aware that past performance is not a guide to future returns. No warranty is given, in whole or in part, regarding performance of the portfolio and there is no guarantee that the investment objectives will be achieved. The value of units and other investments and the income from them may fluctuate upwards or downwards and cannot be guaranteed. Property-based pooled vehicles such as property unit trusts, invest in real property, the value of which is generally a matter of a valuer's opinion. It may be difficult to deal in the units or to sell them at a reasonable price, thus creating a liquidity risk. There may be no recognised market for units in the Funds and, as a result, reliable information about the value of units in the Funds 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 client may arise where the Manager invests in units in a Fund(s) managed by itself or an Associate. However the Manager will ensure that such transactions are effected on terms which are not materially less favourable than if the potential conflict had not existed.

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