

M&G Real Estate UK Enhanced Value Fund



Fund profile

Q2 2019

The value of investments will fluctuate, which will cause fund prices to fall as well as rise and you may not get back the original amount you invested. There is no guarantee the fund objective will be achieved.

Fund facts

Fund manager

Paul Crosbie

First close

29 January 2018

Sponsor co-investment

£45m

Alignment of fund manager

Yes

Subsequent closings

Through 2019

Structure

Scottish limited partnership

Status

Closed-end; seven-year term

Investment style

Value-add

Target equity

£250m

Target leverage

50% LTV across the portfolio

Target returns¹

12%+ IRR gross

10%+ IRR net

Equity multiple 1.6x

Management fee

1.25% pa on invested capital

Carried interest

20% over 9%

Risks associated with this fund

- The fund is a closed ended fund with a seven year term which may be extended. Investors are advised to refer to the fund's Private Placement Memorandum for further details, but investments in the fund are likely to be illiquid, other than when periodic distributions are made by the fund.
- Real estate values can be affected by a number of factors beyond the fund's control and may be subject to long-term cyclical trends that can give rise to volatility in values.
- Please note this is not an exhaustive list, you should ensure you understand the risk profile of the products or services you plan to purchase.

Why invest in M&G Real Estate UK Enhanced Value Fund

At a time of record low bond yields and diminishing core real estate returns, forecast to be 4.5% per annum over the next five years², the case for investing in a value-add strategy backed by a strong component of income, we believe, is compelling.

The fund has assembled a diversified, income-producing portfolio with a capital value of £111 million. The portfolio has ten assets and has:

- A high allocation to offices focused on supply-constrained city centres, set to benefit from the macroeconomic trends of urbanisation, connectivity and regeneration;
- An exposure to the mid-box logistics submarket, set to benefit from increasing occupational demand due to the continued growth of e-commerce; and
- An active asset management programme to enhance income and reposition assets to core ahead of disposal.

The fund has a three-year investment window to take full advantage of any further dislocation in pricing as we move through the Brexit process.

Investment objective

To deliver a target IRR³ of 10%+ net of fees through a value-oriented investment strategy across the primary UK real estate markets.

Investment strategy

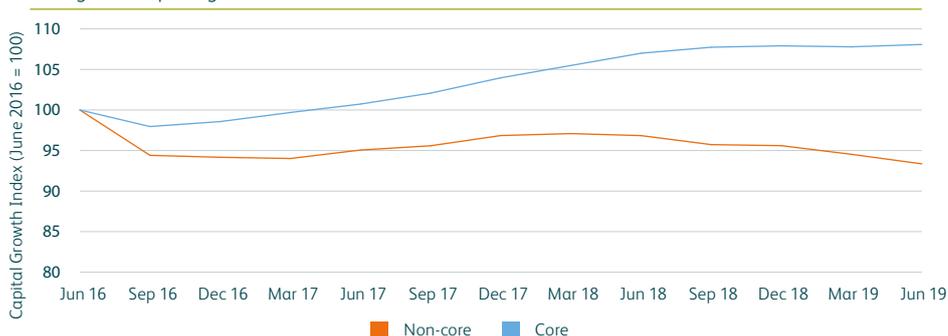
Heightened risk aversion during Brexit uncertainty is creating a divergence of pricing between core and non-core real estate. Consequently, there is a cyclical buying opportunity for experienced investors. The fundamental demand/supply imbalance across the occupational

markets supports the case for taking income risk, whether it be day-one vacancy or near term lease expiries.

We strongly believe that by targeting fundamentally well located non-core assets we can:

- Actively asset manage to add income, extend lease term and enhance capital value;
- Dispose of an enhanced asset into an improved economic and market condition.

Divergence of pricing between core and non-core



Source: MSCI, indexed to the date of the EU referendum (June 2016), to June 2019.

¹ Targeted returns are based on subjective assumptions and circumstances and there can be no assurance that the fund will be able to achieve its objective.

² Source: MSCI Annual Index, M&G Real Estate forecast as at 30 June 2019. Index comprises institutionally owned stock weighted towards core real estate.

³ This is a forecast return to investors net of all property costs and fund expenses. There is no guarantee the fund objective will be achieved.

Portfolio overview⁴

Portfolio value

£111m

Number of assets

10

Average asset size

£11.1m

Estimated rental value

£8.3m

Occupancy rate

84.6%

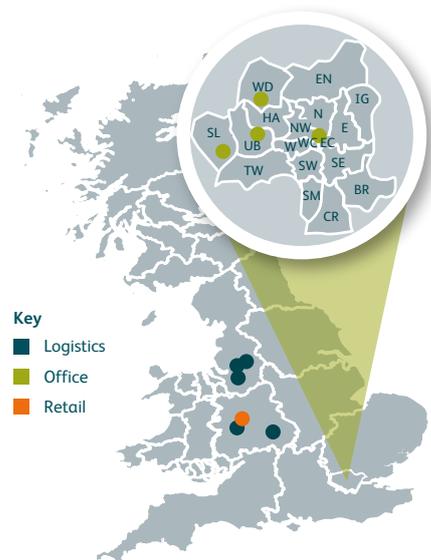
Number of tenants

36

Geographic weight⁴



Sector weights⁴



Active management in action: Gate House, 1 St John’s Square, Clerkenwell, £29 million

This asset is a multi-let office situated in St John’s Square, a prime location within Clerkenwell, London. The area is popular with a diverse range of tenants including fashion, architecture, technology and design. Connectivity will be improved significantly with the opening of Crossrail in 2019, reducing journey times from west to east. Farringdon station is within five minutes walk. A number of nearby office buildings have undergone redevelopment and conversion to higher alternative uses, namely hotels and residential.



This has kept office supply levels constrained and maintained upward pressure on rents. The development brief has been completed and a feasibility study has commenced. The focus is to maximise value by creating well-designed space sympathetic to the building style and to improve the ESG offering for the building.

Key UK stats

£22.0 billion
invested in over 788 assets¹

£2.1 billion
total construction value²

c.3,790
leases managed³

c.925
lease events in 2018

Source: M&G Real Estate.

¹ As at 30 June 2019 unless otherwise stated.

² Construction value of pre-construction and on-site developments, but excl. St Edwards JV.

³ Excludes externally managed real estate.

Fund manager

Paul is responsible for delivering the overall strategy and overseeing the investment team to meet the fund’s objectives. Paul joined M&G Real Estate in 2015 as head of the Industrial & Logistics team. With responsibility for £2.5 billion of industrial assets, the team has successfully transacted c. £300 million of assets under Paul’s leadership, including the development of some 1.5 million square feet. Paul has over 20 years’ industry experience. Before joining M&G, he spent nine years at Rockspring. During this time he was Deputy Fund Manager of the Rockspring UK Value Fund between 2010-2015 which involved active management across all sectors, development management, strategic business planning, and asset disposals. Prior to this, Paul worked at CBRE both in London and Dubai, focusing on investment valuations and development across all sectors. Paul graduated with a BSc (Hons) in Land Management from the University of Portsmouth. He is a member of RICS and the IPF.



Paul Crosbie

May not add up exactly to 100% due to rounding effects.

⁴ Source: M&G Real Estate, as at 30 June 2019.

www.mandgrealestate.com

For Investment Professionals only. The distribution of this document does not constitute an offer or solicitation. Past performance is not a guide to future performance. The value of investments can fall as well as rise. Any forecasts and projections herein represent assumptions and expectations in light of currently available information; actual performance may differ from such forecasts and projections. Any expected rate of return herein is not a guaranteed rate of return. There is no guarantee that these investment strategies will work under all market conditions or are suitable for all investors and you should ensure you understand the risk profile of the products or services you plan to purchase. Information given in this document has been obtained from, or based upon, sources believed by us to be reliable and accurate although M&G does not accept liability for the accuracy of the contents. M&G does not offer investment advice or make recommendations regarding investments. Opinions are subject to change without notice. Map data: Google. This financial promotion is issued by M&G Alternatives Investment Management Limited (unless stated otherwise). For the purposes of AIFMD, M&G Alternatives Investment Management Limited will act as alternative investment fund manager. M&G Alternatives Investment Management Limited is registered in England and Wales under number 2059989 and is authorised and regulated by the Financial Conduct Authority. The registered office is 10 Fenchurch Avenue, London EC3M 5AG. M&G Real Estate Limited is registered in England and Wales under number 3852763 and is not authorised or regulated by the Financial Conduct Authority. M&G Real Estate Limited forms part of the M&G Group of companies. SEP 19 / WIM3109