Charities Property Fund
Savills Investment Management
33 Margaret Street, London
W1G 0JD

24 June 2020

Dear Investor,

Further to our letter of 23rd March and our factsheet and letter of 30th April, COVID-19 continues to impact most areas of the economy and global financial markets.

As previously explained in our letters, the singular set of circumstances facing commercial real estate as a result of the COVID-19 outbreak led AREF (the Association of Real Estate Funds) and the RICS (Royal Institution of Chartered Surveyors) to confirm that valuation firms could not make reliable judgements on value whilst the situation persisted. This is known as "material valuation uncertainty".

The good news is that some restrictions have been eased as the rates of infection have fallen which has led to the reopening of parts of the UK economy. As a result the RICS has removed the valuation uncertainty provision on some areas of the commercial property market listed below:

- Long dated annuity income with at least 20-years unexpired term certain with a secure covenant such as Government or very strong investment grade
- Standalone food stores, including smaller format food stores, let to major operators
- Institutional grade primary healthcare facilities
- non-reversionary residential ground rents (in excess of 80 years)
- all types of rented social housing or leased shared ownership, owned by housing associations and valued on the basis of Existing Use Value for Social Housing (EUV-SH) only, and therefore assuming that all homes remain within the regulated, Registered Provider sector (but excluding social housing owned by local authorities where valued for Housing Revenue Account purposes under government guidance)
- commercial forestry (excluding amenity woodland)
- specialist supported housing of all types, designated either C2 or C3 use class, let to Registered Providers on FRI leases, and usually with a third-party care provider involved in providing care and support to residents, valued on the basis of Market Value
- All industrial and logistics
- Build to rent residential property of institutional grade, which is professionally managed.

Therefore parts of the Charities Property Fund portfolio (food stores and logistics in particular) are no longer subject to the valuation uncertainty provision, however the majority of the portfolio remains subject to the provision. For the June 2020 valuation Cushman & Wakefield (the Fund's Independent Valuer) continue to state the following: *"As at the valuation date, we consider that we can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. Indeed, the current response to COVID-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement.*

The Charities Property Fund is a registered charity, number 1080290. The Manager is Savills Investment Management (UK) Limited, registered in England number 03680998, which is authorised and regulated by the Financial Conduct Authority, number 193863 and is a subsidiary of Savills Investment Management LLP, a limited partnership registered in England. Savills Investment Management LLP is authorised and regulated by the Financial Conduct Authority, number 615368. The registered office of both entities is at 33 Margaret Street, London, W1G 0JD.

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*Our valuations are therefore reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to our valuations than would normally be the case. Given the unknown future impact that COVID-19 might have on the real estate market, we recommend that you keep the valuation of these properties under frequent review".*

For the avoidance of doubt, the inclusion of the 'material valuation uncertainty' declaration above does not mean that the valuation cannot be relied upon. It is used in order to be clear and transparent with all parties, in a professional manner that – in the current extraordinary circumstances – less certainty can be attached to the valuation than would otherwise be the case.

The FCA has issued a "**Statement on property fund suspensions**" which confirms that suspension in these circumstances is likely to be in the best interests of fund investors. Whilst the Charities Property Fund is regulated by the Charity Commission rather than the FCA, we see no reason not to follow their guidance.

The FCA recognises the potential for investors to be treated unfairly when there is material uncertainty about the valuation of the assets in a fund and that suspension of dealing is an appropriate tool to be used in such circumstances. Under new FCA rules applying to FCA authorised funds investing in inherently illiquid assets, such as commercial property, **funds with more than 20%** of their portfolio subject to **material valuation uncertainty** are required to **suspend** subscriptions and redemptions in the interests of all investors.

**We have been carefully considering the position of the Fund and what is in the best interests of investors. Having consulted with Citibank Europe plc UK Branch (the Depositary) we have decided to continue the current suspension of dealing in the Fund's units until a degree of normalcy returns and the material valuation uncertainty is lifted or reduced to the FCA hurdle level. At this stage we do not know how long this will be.**

**We are not experiencing a liquidity squeeze and hold significant additional cash balances which have been deliberately increased in recent years. Therefore we have no issue with liquidity. Whilst we would prefer to remain open as we did during the 2016 referendum crisis, we consider the current pricing uncertainty in respect of units means we are unable to do so.**

**Therefore we are exercising our powers under the scheme particulars to continue to suspend trading for both applications and redemptions in the interests of all investors. Quarterly distributions will continue to be paid in the normal way to all unitholders.**

We will, in consultation with the Depositary, keep the position under regular review and will keep investors informed of any material developments.

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We reiterate that we believe the Charities Property Fund to be well insulated from this crisis. Where we have retail occupiers they are focused towards food, discount and convenience. We benefit from having a very low vacancy rate (and therefore lower commensurate void costs). Also the Charities Property Fund has no debt and therefore any fall in capital values does not put it at risk with lenders or have a magnifying effect on negative performance. We have no indirect property holdings. We do not undertake speculative development and have consistently pursued a cautious, low risk approach, focused on creating a quality, predominately prime portfolio. This will be particularly important as occupiers will be reticent to risk losing some of these locations despite short term incertitude.

Risk remains around income collection with the June quarter rapidly approaching. We are hopeful that collection figures will remain high, particularly as the economy opens up and occupiers can recommence trading. However the Government restrictions on landlords' ability to collect rent have been extended until the end of September. We will maintain close scrutiny on those tenants that have requested monthly payments and rental deferments to ensure that they comply with the conditions that have been set.

The Fund team will continue to provide you with regular updates. We will notify investors once the Fund reopens for dealing and will provide a further update on rent collection and dividend payments in the July factsheet.

If you have any questions regarding this letter please contact Harry de Ferry Foster or Lucy MacEwan.

Kind regards,

**Harry de Ferry Foster**
**Fund Director**
Authorised to sign for and on behalf of Savills Investment Management (UK) Limited

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Further information can be found about the Fund at our dedicated website: www.cpfund.co.uk

## IMPORTANT NOTICE

This letter is issued by Savills Investment Management (UK) Limited (registered in England, number 03680998 at 33 Margaret Street, London W1G 0JD), who is authorised and regulated by the Financial Conduct Authority (firm reference number 193863) and operates as the Manager of the Charities Property Fund ("The Fund").

This Fund is a registered charity (number 1080290) and is a common investment fund established by the Charity Commission for England and Wales under Section 24 of the Charities Act 1993. Investment into the Fund is only available to charities within the meaning of section 96 or 100 of the Charities Act 2011.

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The value of property is generally a matter of a valuer's opinion rather than fact. Please remember that past performance is not necessarily a guide to future performance. The value of an investment and the income from it can fall as well as rise and investors may not get back the amount originally invested. Property can be difficult to sell and it may be difficult to realise your investment when you want to.