



Manager and Trustee's Report

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# CHARITIES PROPERTY FUND

Savills Investment  
Management

## ANNUAL REPORT AND ACCOUNTS

June 2022







Bury St Edmunds



Hayes



Greenwich



Solihull



Brighton



Newcastle upon Tyne



Warrington



Normanton

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# Manager and Trustee’s Report



The UK economy is facing a range of challenging issues which are causing volatility, uncertainty and caution in the markets. There has been political turmoil following the resignation of Boris Johnson and Government business has effectively been on pause for the summer. Liz Truss has been appointed as his successor, but she inherits probably the most challenging inbox since Margaret Thatcher in 1979. Very sadly we have lost our Sovereign, with the passing of her Majesty, Queen Elizabeth II, bringing an end to the second Elizabethan age and the accession to the throne of Charles III. There seems to be few constants right now.

The war in Eastern Europe continues, and now looks set to run for the longer term. The West continues to respond by tightening Russian sanctions and in return Russia is increasingly restricting its supply of gas, fuel and grain, causing prices to spike, all exacerbated by the pick-up of activity since the pandemic. Inflation is the big concern for economists, running at 10.1% in June (11.8% on the RPI measure) and whilst the Bank of England predicts this will peak at 13% some forecasters are suggesting it could exceed 16% early next year.

Some pessimistic commentators have begun to liken 2022 to the 2008/09 recession. During the 2008/09 Global Financial Crisis (GFC) recession, commercial real estate capital values fell significantly. However this comparison ignores the fact that the crash was partly caused by significant overleverage, which is not prominent in this cycle. During the Covid downturn in 2020 commercial values fell by 9.1%.

What happens to capital values over the second half of this year and into 2023 will be dictated by what happens to inflation and to interest rates. Cautious optimism is starting to materialise for the inflation outlook, as the inventory overhang and waning consumer demand could potentially mean a faster-than-expected slowdown in inflation. However the recent tax cuts and subsequent market response point to a rapidly deteriorating outlook. The Bank of England is likely to deliver a significant monetary response to stabilise the sell-off in the pound and government bonds should that continue. Therefore despite interest rates sitting at only 2.25% as we go to print, they could rise quickly. Commercial real estate values are therefore likely to come under pressure in the second half of 2022.

On a positive note real estate does provide an attractive recurring income stream, but also much of the value is in the land and the buildings. This can provide an element of inflation protection and if a tenant default is encountered the better quality buildings can often be easily relet. This is an advantage over other asset classes.

## Performance Highlights to 24 June 2022

The Charities Property Fund has returned

**9.4%** per annum  
annualised over a three-year period

The Charities Property Fund has returned

**9.4%** per annum  
annualised over a ten-year period

The Charities Property Fund has returned

**8.6%** per annum  
annualised over a five-year period

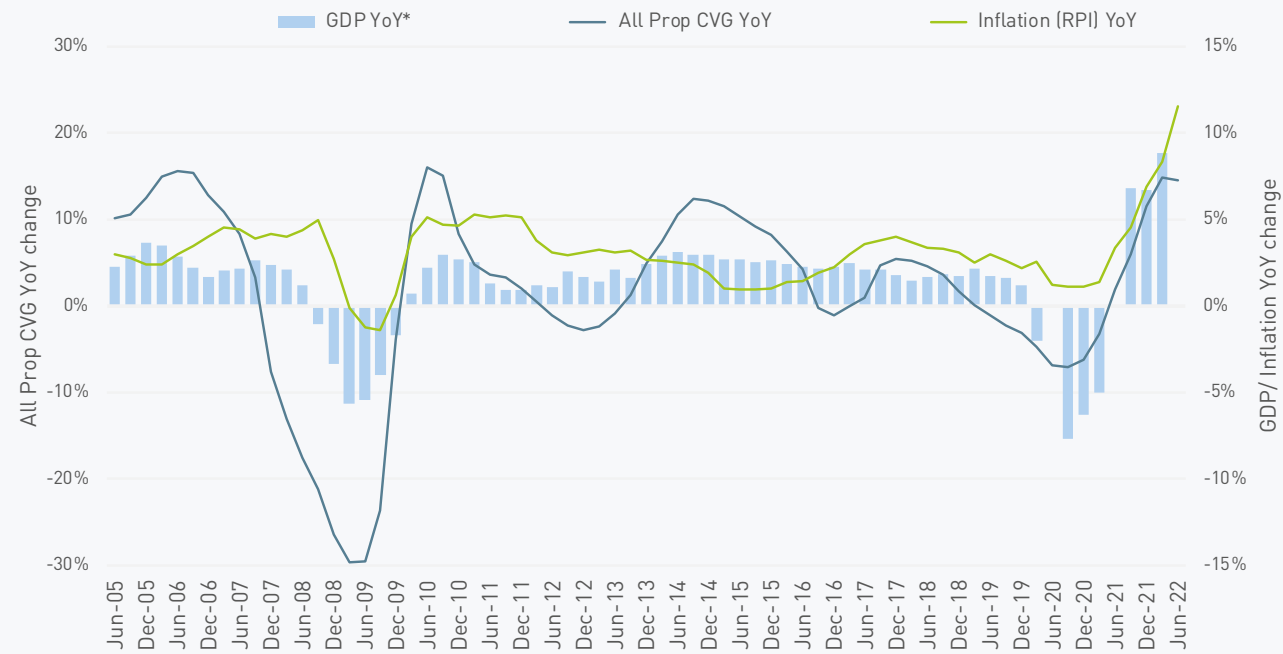
The Charities Property Fund has returned

**7.6%** per annum  
annualised since launch (Dec 2000)

\* References to total return in this document are net of all fees, charges and expenses

# Manager and Trustee’s Report

## Analysis of capital values during previous downturns



Source: Savills; MSCI; ONS; OE

The Charities Property Fund delivered an outstanding 23.5% total return for the year to June 2022. It is the highest annual return the Fund has ever produced. The Fund has outperformed over the quarter, the year to date, one year, three years, five years, 10 years and 20 years. It has also outperformed for 14 out of the last 15 years.

The Fund is the largest it has ever been at £1.452 billion, having grown 25% over the last 12 months through capital growth and £100 million of new investment and is reassuringly diversified by sector, geography and lot size.

The Fund is deliberately risk averse. It has no debt; the vacancy rate is purposefully managed to be low - currently only 3.5%, compared to the market average of 10%; the weighted average unexpired lease term (WAULT) is long at 11.4 years and importantly 44% of our leases benefit from indexation linked to either RPI, CPI or simply guaranteed increases. Whilst some of our index linked leases do include caps and collars, two thirds of index linked rent reviews are to the RPI index and half are uncapped.

From an ESG perspective our long leases provide us with a significant additional benefit. We are finding that more and more of our corporate occupiers are embracing a net zero target with most aiming for 2030. On average our leases run until 2034 and therefore increasingly our tenants are working with us to enable early interventions to hit this target.

All of these metrics are characteristics of a Fund that exhibits lower than average risk relative to the Index and therefore we are delighted that we have outperformed the Index over every time horizon.

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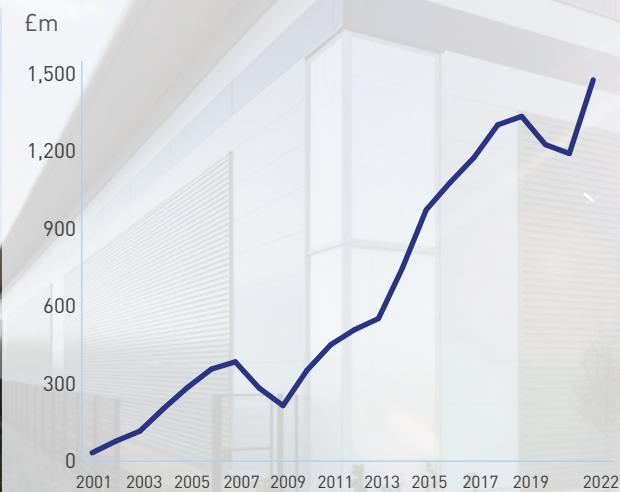
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## Net Asset Value

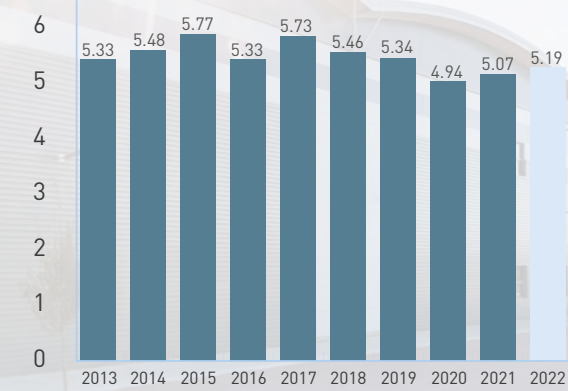


Source: AREF/MSCI

\* Past performance is not a reliable indicator of future performance

## Annual Dividend (June to June)

Distribution payment  
(pence per unit)



Turning to how the Fund is positioned for the future, the greatest protection we have is quality. Quality of assets and quality of locations. We have patiently pieced together a very attractive portfolio dominated by towns and cities such as London, Oxford, Cambridge, Bath and Brighton. In addition, we have a significant exposure to industrial and logistics assets where replacement costs are often in excess of our valuations.

Whilst capital values can fluctuate for reasons beyond our control, the income return remains broadly stable due to the quality of the tenant covenants. Even during the recession of the magnitude of 2008/2009, we only experienced a tenant failure rate of less than 5%. During Covid-19 which was perhaps the biggest stress test for commercial property ever conceived, the Fund suffered only a 7% fall in the dividend despite payment of rent being legally optional and many occupiers being prevented from using their premises. Many of our competitors suffered a reduction of more than three times this amount. The dividend increased 2% during the year to June, and it accelerated during H1 2022 compared to H1 2021, being 6.4% higher and matching the levels seen in 2019, demonstrating a growing and improving trend.

We are well positioned. We have £60 million of cash (4.1%) and no outstanding redemptions, the average lease length weighted by rental income is long and we have a very high percentage of index-linked leases. We benefit from a large diverse portfolio and believe our continued focus on best in class institutional quality property will continue to deliver dividends.

**Harry de Ferry Foster MRICS**  
Fund Director

# Highly Resilient Quality Portfolio

**118** properties

**11.4** years to lease expiry

**44%** of annual rent benefits from fixed or index linked rental increases

**78%** of tenants rated low or negligible risk by Dun & Bradstreet

**3.5%** vacancy rate

**c.1,500** investors

**Portfolio** is weighted to London and the South East of England

**No debt\***

\* There is a fixed revolving credit facility which remains undrawn



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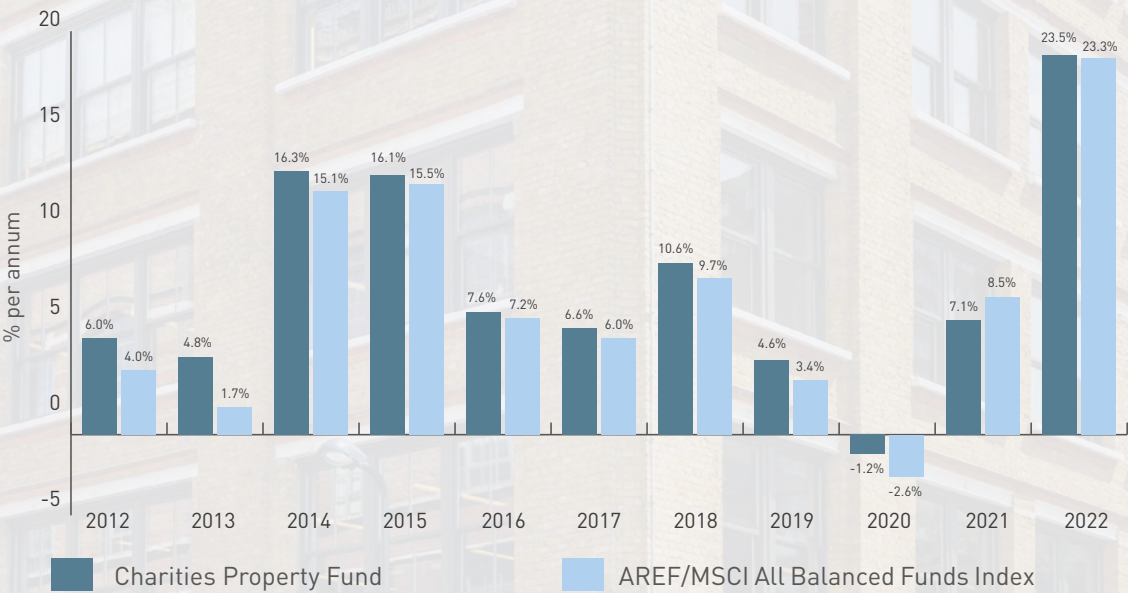
# Fund Performance

The total return for the Fund during the 12 months to 24 June 2022 was 23.5% against the AREF/MSCI All Balanced Open Ended Property Funds Index which produced 23.3%.

Over 10 years the Fund has delivered 9.4% per annum on average, compared to the Index of 8.5% per annum. Of this, 4.7% p.a. on average has been returned to investors as income.

Whilst the income component of total returns has been relatively stable, capital returns exhibit more volatility. Therefore real estate is best invested into with a medium to long term time horizon as returns in individual years can fall short of or significantly exceed our objectives.

Fund level performance - Total return as at 24 June 2022



Source: Savills Investment Management/AREF/MSCI All Balanced Property Funds Index

\* Past performance is not a reliable indicator of future performance

# Chairman of the Advisory Committee



The Charities Property Fund posted a total return of 23.5% over the last 12 months, substantially exceeding its 7.0% per annum objective and outperforming the AREF/MSCI All Balanced Open Ended Property Funds Index. The consistency is striking as the Fund has outperformed the Index and its objective over the medium and long term whilst delivering a top quartile income return.

The dividend remains key for many investors in the Fund and it is encouraging to see it remains reliable having delivered an average of over 4.7% per annum (net of fees and costs) for the last ten years. It grew last year and the high percentage of index linked leases should help to maintain this progress over the next 12 months.

The portfolio has always been defensively positioned, with no debt, long leases and with a balanced exposure across the sectors. The Fund has no shopping centres and very little high street retail exposure. Its lowest sector exposure is to offices - probably the weakest sector currently, outside of the high street.

We continue to be reassured by the transparency and capability of the management team. Savills Investment Management and the Charities Property Fund team have navigated the recent trials brought about by the pandemic and political uncertainty well. We are clearly facing imminent challenges in the wider economy, so they will not be able to rest on their laurels.

They are aided by the Advisory Committee which provides a sounding board to the investment manager and the comfort of an additional check and balance for investors, on top of Savills Investment Management's own internal processes and procedures. Whilst the Committee is advisory, we have a close working relationship with the management team and review the portfolio and their performance every quarter. We are also invited to comment and advise on all purchases and sales in advance. The Committee remains mindful of the fact that all our investors are registered charities with charitable objectives and responsibilities. We work closely with Savills Investment Management to ensure the Fund's clear ethical policies are observed, and likewise that the Fund invests and manages in accordance with socially responsible investment (SRI) principles, more detail on which can be found later in this report.

The Committee benefits from the considerable knowledge and experience of the seven additional members listed below:

**Aidan Kearney**  
CIO, The Health Foundation

**Alan Fletcher**  
Chairman of Investment Committee,  
Leicester Diocesan Board of Finance

**Andrew Chapman**  
Trustee of KidneyCare UK

**Chris Hills**  
Chief Investment Consul, Investec Wealth Management

**Paul Taylor**  
Latymer Foundation member,  
Investment Advisor to the Friends of St Martin-in-the-Fields

**Richard Robinson**  
Investment Director, Paul Hamlyn Foundation

**Wilf Stephenson**  
Bursar, Oriel College, Oxford

We will endeavour to assist the continued success and strong governance of the Charities Property Fund.

**Malcolm Naish**  
Chairman of the Charities Property Fund  
Advisory Committee



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# Objectives

The Charities Property Fund aims to provide a high and secure level of income with the prospect of growth in income and to maintain the capital value of the assets held in the Fund, through investing in a diversified UK commercial property portfolio. To meet this objective, Savills Investment Management (UK) Limited (the “Manager”) targets a total return of 7% per annum, of which we look to deliver the majority through income. However, this is an aspiration and a guideline, not a guarantee, and the level of income and total return may fluctuate. The Fund has a very strong focus on ESG and Responsible Investment, a stated ethical policy and adapts both positive and negative tenant screening when assessing investments and new occupiers.

The Fund invests in the principal commercial property sectors: office (both London and regional), retail (high street, supermarkets and retail warehouses), industrial (manufacturing and distribution) and alternatives (hotels, student accommodation, serviced apartments, car showrooms, educational, medical, roadside and leisure) and whilst it will undertake refurbishment projects and forward fundings of pre-let investments, it does not undertake speculative developments.

The Fund’s operating costs (the Total Expense Ratio) are paid from the income

account. Whilst this reduces the quarterly distribution payable, we believe that such expenditure should be financed from current income, rather than from capital.

**A number of other property funds either charge some or all of operating costs (such as management fees) to capital thereby artificially inflating their distribution. Investors should be aware of this when making comparisons. The costs charged to capital by the Fund relate to investment in properties, acquisition, disposal or refurbishment costs.**

## CPF Investors



“To provide a high and secure level of income with the prospect of growth in income”

# Strategy

The strategy for the Charities Property Fund remains unchanged. We set out at inception to construct a high quality portfolio diversified by sector and geography and this remains true today.

The Fund is a ‘Balanced Fund’ and therefore invests across the property sectors to avoid falling prey to the changing fortunes of any individual sector.

The focus is on prime locations and by this we mean supply constrained towns with good tenant demand. We target buildings that are adaptable, offering protection from obsolescence and multiple alternative uses wherever possible. We seek to hold assets for the long term, but maintain a long tail of smaller assets to meet liquidity needs should investors seek to divest.

We aim to provide an above average income return, through keeping vacancy and associated costs (such as empty rates, service charges, repairs and insurance) to a minimum and by generating income growth through rental increases, refurbishments, active asset management and new lettings. The vacancy rate is currently 3.5% compared to the industry favoured MSCI quarterly index average of 10%.

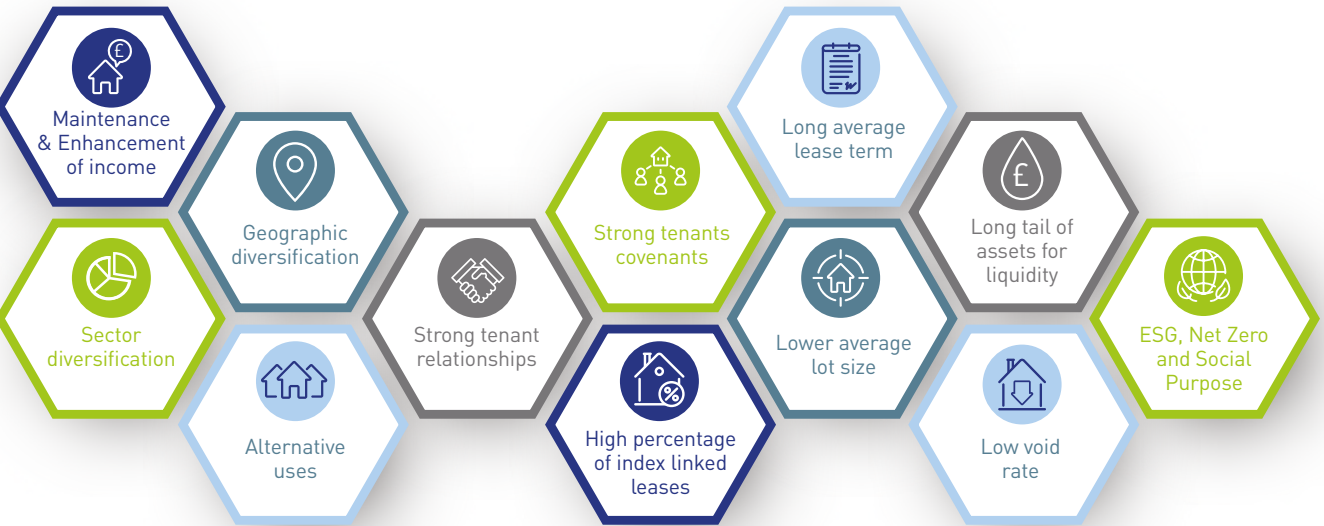
We favour maintaining a longer than average lease length having one of the highest in the index, providing security of income and allowing us to ride out short term economic uncertainty. The Fund also targets a high percentage of index linked rent reviews, currently comprising 44% of all

income, guaranteeing income growth particularly during times of high inflation.

Underlying all of this are our tenant relationships which are paramount. We maintain a strong dialogue and good relationships with our occupiers, and a focus on above average covenant quality.

ESG, net zero and social purpose are major considerations for us. The Fund is a Common Investment Fund and a charity and we continue to operate ethically and champion environmental improvement.

We have acquired 110 buildings during the last nine years, investing over £850 million in assets that are now valued (or have been sold) for a total consideration of over £1.11 billion. Of these acquisitions, we have subsequently sold 27 properties totalling only 16% of all properties illustrating that acquisitions have been made for the long term. Our ability to source the right investment stock at the right price continues to be the biggest driver of performance. The majority of acquisitions are made off-market utilising our extensive network of contacts and our strong reputation, enhanced by the extensive network of the wider Savills group.



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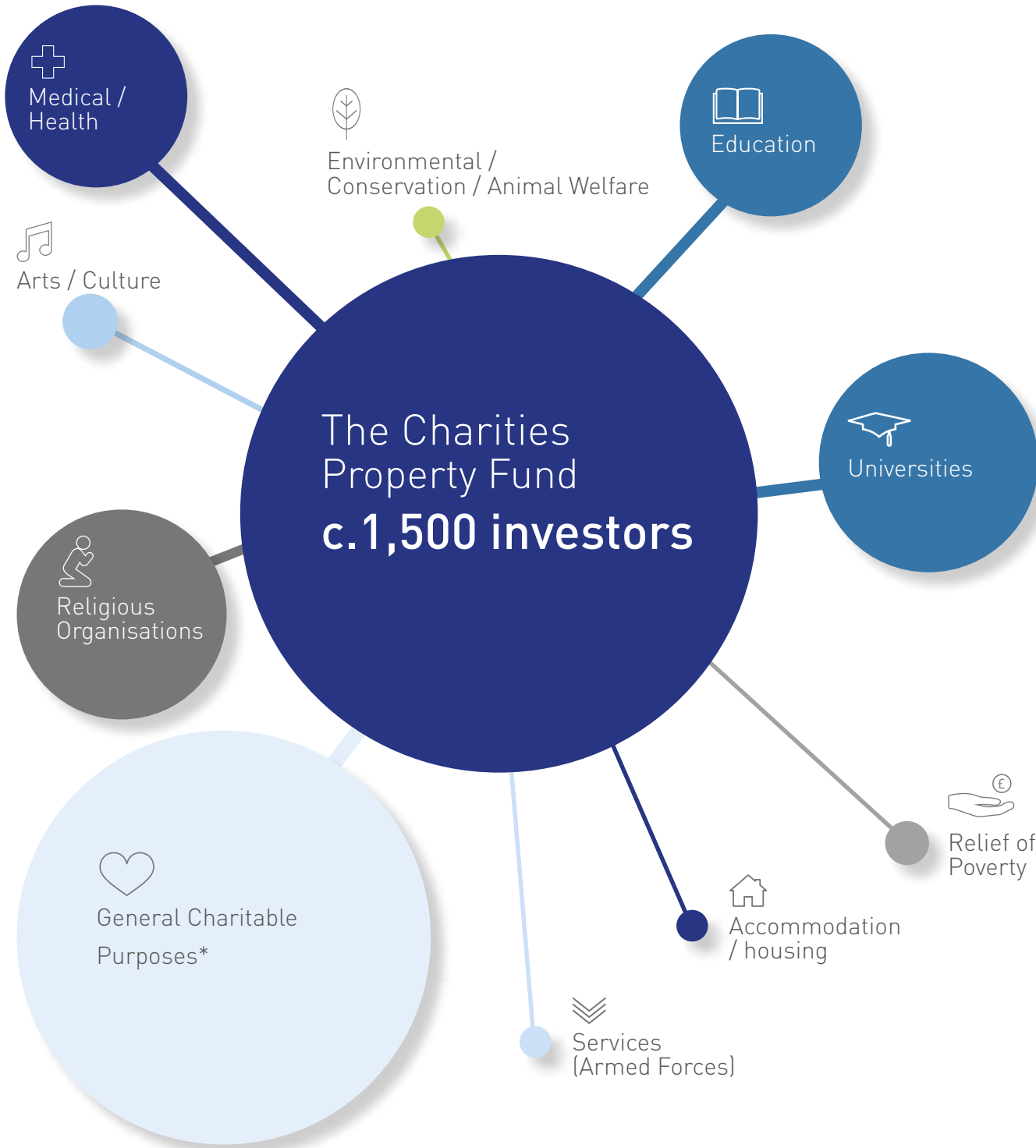
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# Investor Categorisation

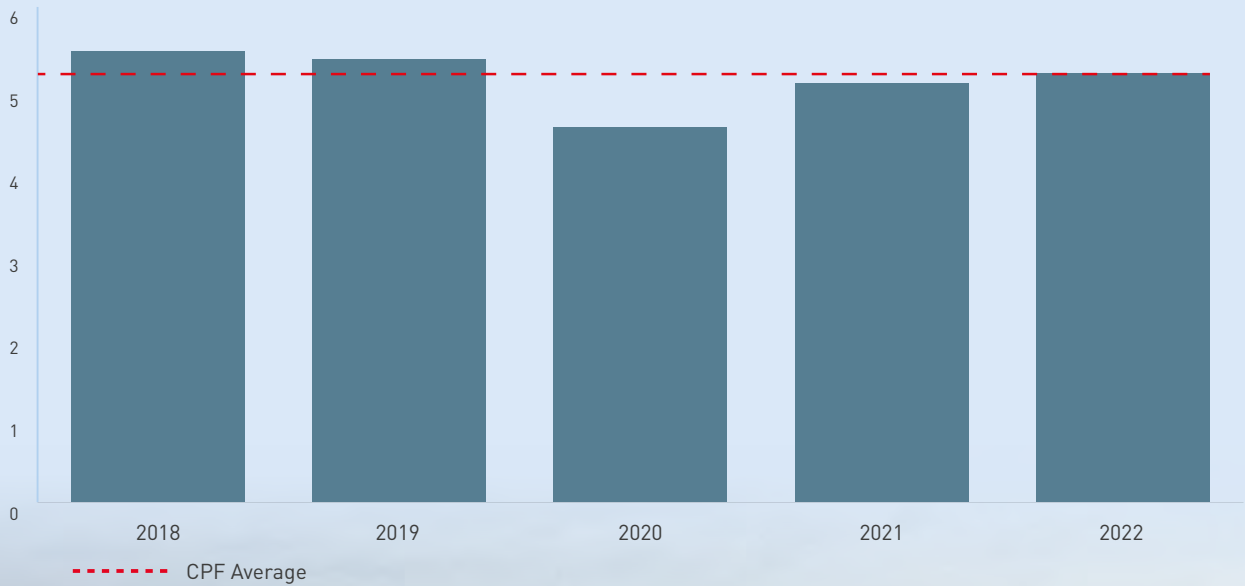


Source: Savills Investment Management (June 2022)

\* This category includes charities with multiple sector beneficiaries or charities who offer a range of services to a set geographical area.

# Distributions – Five Years

Annual Distributions  
(pence per unit)



Source: CPF



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# Governance and Responsible Investment

## Governance, Procedures and Oversight

The Charities Property Fund (CPF) benefits from the governance, procedures and oversight of the wider Savills Investment Management business.



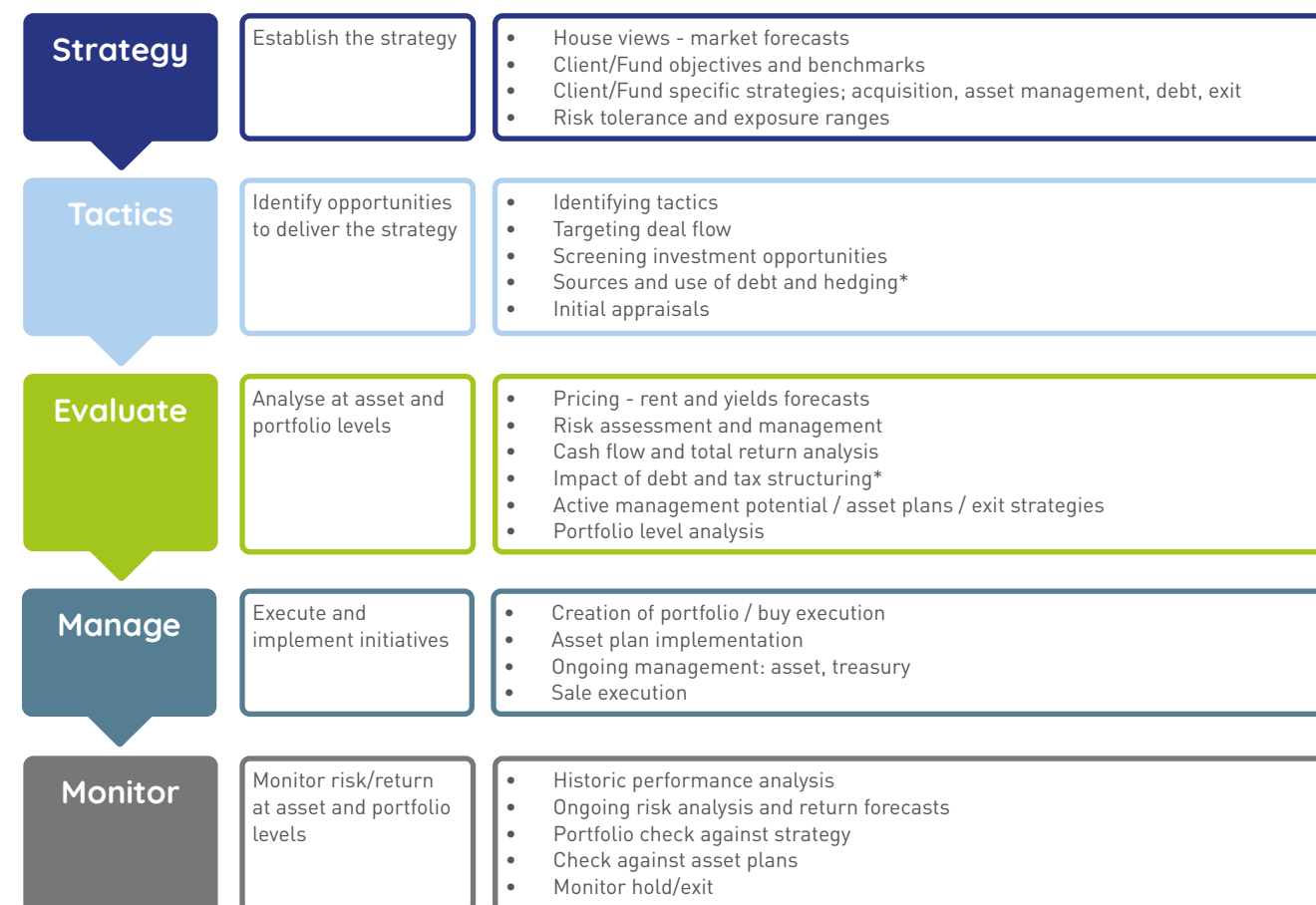
Savills Investment Management is predominately an income-based investment manager and sees income as the key driver of long-term performance. We use research to identify opportunities and risks across property markets and then combine that with the insights of our fund teams in order to create our house views, trend analysis and other outputs integral to investment.

These strategies then filter through to our proprietary investment process, which can be summarised by the acronym STEMM (Strategy, Tactics, Evaluate, Manage and Monitor). This provides a circular framework for investment decision making and is applied to all portfolios. It aims to establish the strategy of a fund, identify the opportunities to deliver that strategy, analyse at asset and portfolio level,

execute and implement initiatives and monitor risk/return and other value/risk influencers, like ESG, climate risk, concentration holdings, and tenant covenant strength.

We ensure this process is enforced through governance procedures. Our Investment Committee reviews, considers and endorses or rejects the Fund team's recommendations. It is responsible for making sure transactions are appropriate relative to fund allocation, performing due diligence/analysis of the asset and to identify and mitigate any conflicts of interests. It also reviews proposals made by the Fund team for portfolio management including investment objectives, stress testing, attribution analysis, portfolio risk management and the review of asset plans.

### Investment Process Overview - STEMM



\*NB this does not apply to CPF which has no debt and a charitable tax status



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# ESG and Responsible Investment

## Our Policy

The Charities Property Fund understands the importance of considering environmental, social and governance (ESG) aspects in its investment and management decisions, and recognises that doing so may help protect and maximise returns. We will not invest in properties whose tenants could potentially cause embarrassment to our unitholders, or be in conflict with the values held by many of our beneficiaries as charitable entities. This would include companies whose primary business is the production or sale of tobacco, arms, pornography or who are involved in animal testing. We provide complete transparency on investments by listing all tenants in the annual and interim report and accounts and on the Fund website.

We take our ethical considerations very seriously and continue to monitor every tenant to ensure that the tenant is acceptable, however, it would be easy to find a reason to not accept a multitude of tenants and so we look at the bigger picture. All proposals and tenants are reviewed by an Advisory Committee which is made up of representatives from six charities, five of whom are invested in the Charities Property Fund, and we specifically consult with them for their views on whether a proposed tenant is unacceptable.

The Fund's ESG objectives are implemented at fund and asset level and incorporated into every stage of property transaction: property acquisition, asset management, development / refurbishment / fit-out and disposal.



## Our ESG Commitments



### Pre-Investment

(Origination and Due Diligence)

When reviewing potential investments we consider relevant ESG issues including environmental and social risks and opportunities, regulatory compliance, green building accreditation or value-add innovation. During the due diligence process, potentially significant ESG issues and opportunities will be analysed and identified. We also evaluate and manage the impact that sustainability has on investment performance; for example this may include depreciation costs due to additional capital expenditure or the ability to let or sell a property. Our exposure to, and required management of ESG issues will be considered when making the final investment recommendation/decision.



### Property development, refurbishment or fit-out

Where appropriate we integrate sustainability and ESG considerations into the earliest stages of design and construction of asset development, refurbishment or fit-out. This creates an opportunity to add tangible value to asset value, future-proof against obsolescence, improve occupancy appeal and results in improved building performance.



### Property management

Our focus on integrated sustainability into property management practices ensures we are able to continue to add value, improve and enhance assets in our ownership, reduce operational costs and foster tenant satisfaction.



### Asset disposal

When a property is being positioned for sale, sustainability measures can be used to further enhance the property's status and maximize its value. Such features help provide valuable criteria that differentiate the property from other offerings in the market and serve as an indicator of overall quality.

# ESG Commitments



The Fund team have embraced a Net Zero commitment by pledging to achieve Net Zero for Scopes 1 and 2 by 2030 (i.e. properties where we are in control or multi-let properties). We have pledged to achieve Net Zero for Scopes 1,2 and 3 by 2040.

This commitment will require the team to adopt a transformative approach to asset management. If we are to achieve the necessary levels of decarbonisation we must further integrate ESG principles into each stage of the investment cycle. For example:

- Our acquisitions will need to be assessed for their energy and carbon performance, and resilience to physical climate hazards.
- The refurbishment of our existing assets will need to prioritise the energy hierarchy by focusing on the use of low carbon materials, energy efficient equipment, the purchase of green energy and the installation of renewable energy generation where feasible, including phasing out fossil fuel heating systems.



We completed our first operational net zero carbon building refurbishment in Milton Keynes which achieved a Building Research Establishment Environmental Assessment Method (BREEAM) rating of Excellent and an Energy Performance Certificates (EPC) rating of A+. In terms of EPC's we are 100% compliant with legislation and 75% of our assets have an A, B or C rating. We are confident these will all be A & B by 2030.



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# Case Study - Specialised Supported Housing

We have made our first investment into specialised supported housing (SSH) in March this year. We have previously communicated our strategy of targeting socially beneficial occupiers with similar values to our investors and this acquisition reflects this.

Specialised supported housing (SSH) is typically for young adults who have learning or physical disabilities, or mild mental health problems. These disabilities tend to be acquired at birth and are life-long. The official age range is 18-65, but the average is currently 25-35 years old. Care is relatively low intervention but available on site 24/7. This is not acute healthcare – the residents are independent but require a care package typically delivered by a Local Authority or care provider such as a charity. Active charities in the sector include Golden Lane, Mencap and Leonard Cheshire.

The essence of this investment is that we are creating a home for life, not an institution, for vulnerable people in society. We are purposefully directing capital to create a residential dwelling for individuals to lead independent lives, and delivering a long sustainable income stream for our investors.

## Case Study

We have partnered with a best-in-class developer to access a pipeline of these assets. The initial four comprise freehold properties that are located in attractive locations in the south of England, namely Dorchester, Poole, Nailsea and Shanklin Isle of Wight. The properties are all let to Housing Associations with the Leonard Cheshire Charity providing the care package.

The leases are long and they all benefit from CPI indexation. The total consideration for the four properties will be £11.4 million, reflecting a yield to the Fund of 4.9%.



We think exposure to this sub-sector provides defensive income that is decoupled from economic and property cycles thus offering counter cyclical characteristics due to entrenched and enduring demographic trends.

In addition to the social benefits, the assets provide Government backed, index linked income. They comprise relatively small individual lot sizes, because for the

residents it is better to pepper pot these units throughout existing communities. However this also means they are liquid and will appeal to a diverse range of investors. The locations and buildings are important as they provide significant underlying value – up to 80% of the investment value, affording additional protection.



Importantly all are newly refurbished or constructed and the income risk is mitigated through purpose built properties that look almost identical to typical mainstream housing. The alternative use is residential in areas where there is significant demand.

Because the assets are new they provide excellent environmental credentials. All have EPCs of B or above. They also provide excellent 'social' characteristics which we forecast to gain increasing attention as investors become more sophisticated when thinking of ESG.

# Case Study - Specialised Supported Housing

*"There is growing demand for this type of accommodation from Local Authorities who need to meet their statutory obligations to house vulnerable adults."*

Regulator of Social Housing

Dorchester



Local Authorities have an obligation to house vulnerable people in society and those with learning or physical disabilities. There is also a clear direction of travel towards SSH accommodation and away from traditional “residential care” which is when a resident lives in a registered care home or NHS facility. As the Regulator of Social Housing has stated: “There is growing demand for this type of accommodation from Local Authorities who need to meet their statutory obligations to house vulnerable adults.”

An essential component, in our opinion, of underwriting these investments is to secure commissioner support for the scheme and ideally a “letter of support” from the Care Commissioner of the Local Authority which underwrites the rent per week per resident. We have received these for Dorchester, Nailsea and the Isle of Wight. We have also teamed up with good quality care providers – Leonard Cheshire are providing all the care packages and Poole Local

Authority have provided a direct income underwrite on that facility and implicit support as the Local Authority itself is the care provider. All of the care providers have entered into a care package of 10 years at each of the four properties.

The risk in this sector is around unscrupulous occupiers or developers pushing rents to unsustainable levels twinned with the regulator stepping in to cut rents. We believe the risk of this materialising at these four properties is low due to the reasons outlined above.

We are not exposed to operational income risk: the properties are let on FRI leases with contracted rents that are reviewed upwards annually to CPI. Additional mitigation to this risk, as ever, is to back the property and location, not the lease. We are comfortable that the rents are sustainable and the location and real estate match underlying and growing occupier demand.

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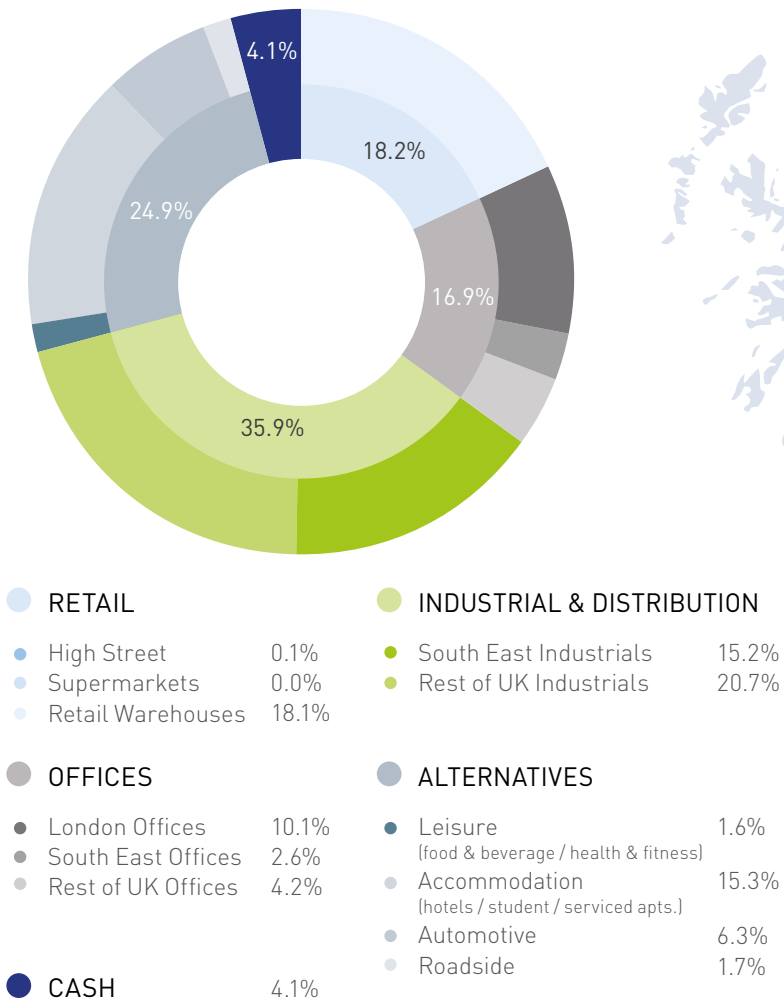




# Sector Weightings - The Fund

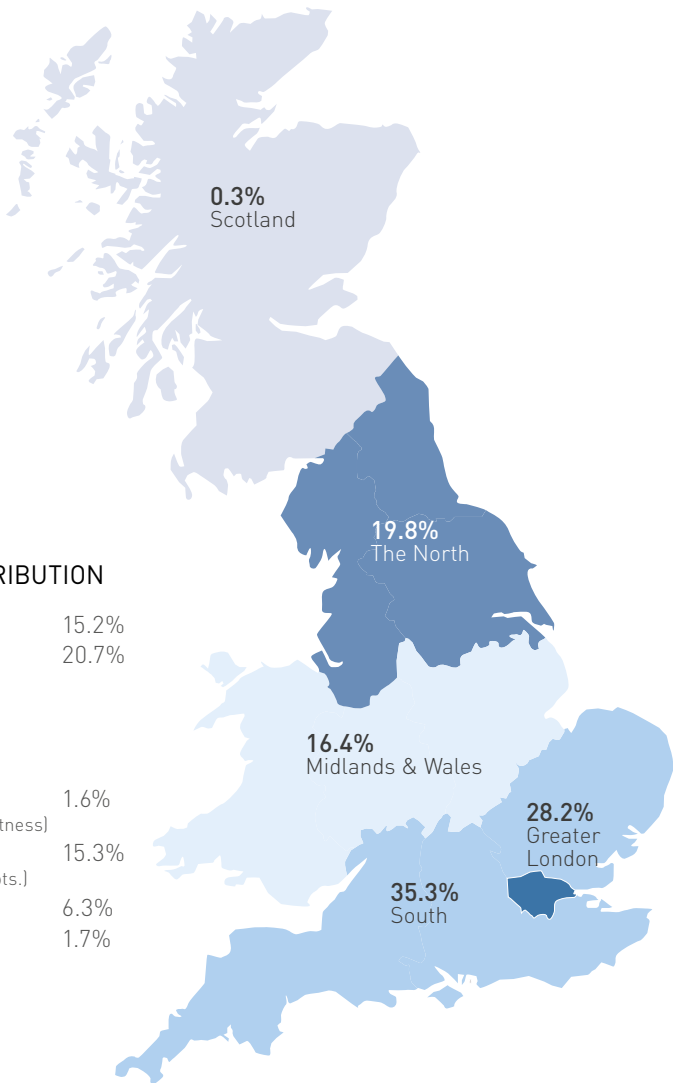
The portfolio is well diversified and is not overly exposed to any one particular sector. It continues to have a bias towards industrial/logistics (our largest sector exposure), alternatives and the retail warehouse sectors. It remains significantly underweight (relative to the AREF/MSCI All Balanced Funds Index) to high street retail, shopping centres and offices. The MSCI weightings are shown on the facing page.

CPF Portfolio by Sector  
as at 24 June 2022



Source: Savills Investment Management

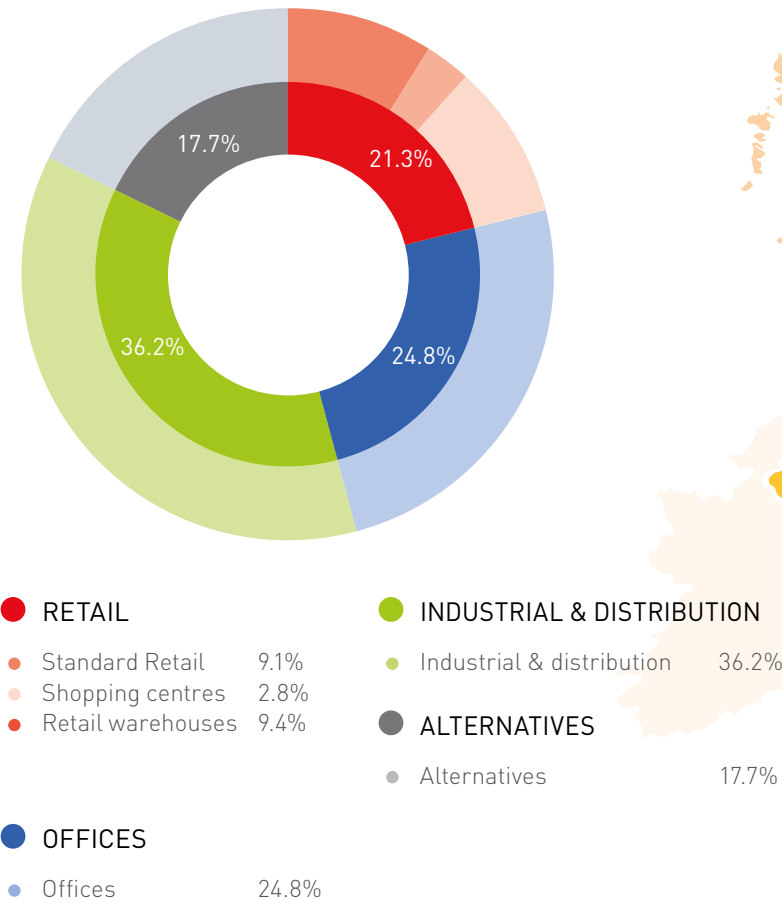
CPF Portfolio by region  
as at 24 June 2022



# Sector Weightings - MSCI

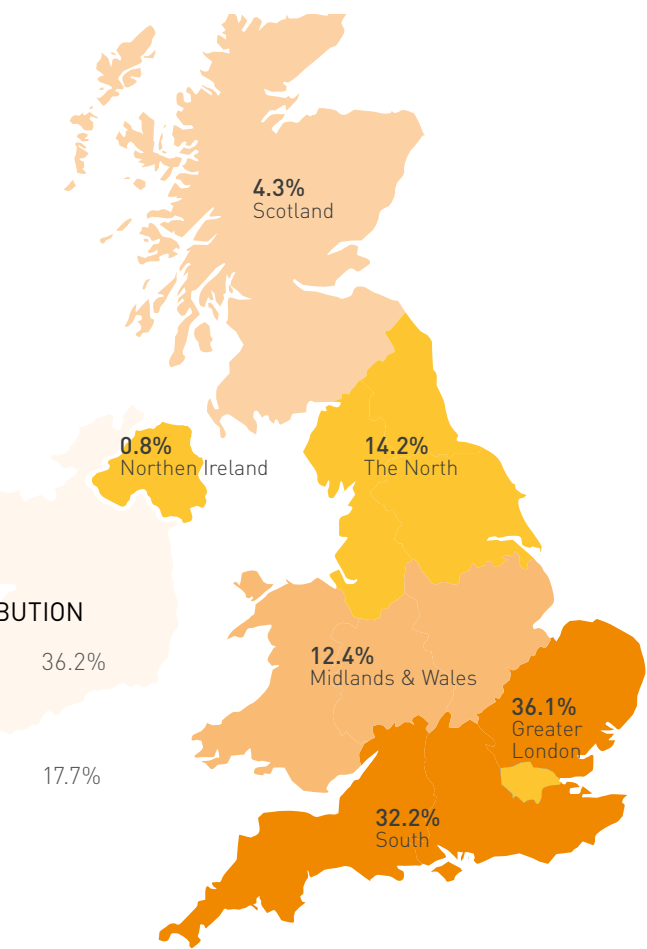
Geographically the Fund's weightings differ from the MSCI Quarterly Index weightings. The main differences being we have almost no exposure to Scotland and less to Greater London, but proportionately more in the South, the Midlands and the North of England.

MSCI Sector Weightings  
as at 24 June 2022



Source: MSCI

MSCI Geographical Weightings  
as at 24 June 2022



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# Asset Management

It has been a busy 12 months for the fund with a substantial number of asset management initiatives completed. A total of 58 new lettings, rent reviews and lease surrenders were undertaken - more than one a week. The average increase at review was almost +10% and the average premium to estimated rental value achieved was +6.5%.

58   
new lettings

£7,253,995  
of income  
attributed to  
those transactions

Largest new letting  
was Rivington  
House, London at  
£923,527 p.a.



Two largest  
lettings were in  
the office sector

Average   
premium to  
Estimated Rental  
Value (ERV)  
across all new  
lettings/renewals  
was +6.5%



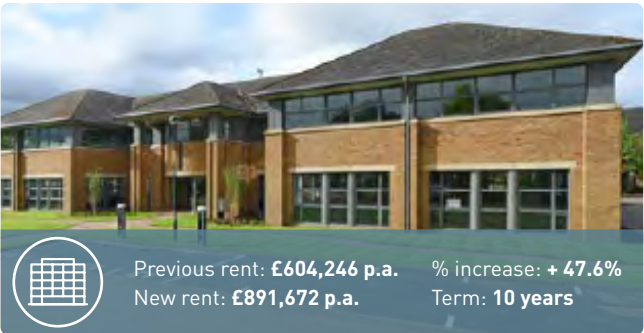
17 rent  
reviews  
completed

Average  
increase  
at review  
+9.5%

Two lease  
surrenders  
generating  
£800,000

# Asset Management

We continue to capture significant rental growth within the industrial and logistics sector, although our two largest lettings suprisingly were within the office sector. Shoreditch provided our largest letting at over £900,000 per annum and the Birmingham letting proved the most lucrative, enhancing the value by almost 100%. These examples appear to buck the trend of weakness in the wider office market. Our retail void rate is now zero after succesfully letting our remaining retail warehouse unit in Bury.



### Birmingham

Despite the hesitation seen in some parts of the office market post Covid, we have signed new ten year leases to The Secretary of State for Levelling Up, Housing and Communities on two buildings, totaling 36,750 sq ft. The rent achieved of £891,672 per annum reflects £24 per sq ft and was 33% ahead of the Independent Valuer's opinion of market rent of £675,700 per annum (£18 per sq ft) and 47% above the previous rent passing. The Government will invest £7 million across both buildings for a new data centre. This transaction is the largest office letting on the park for two decades. As a result of the two lettings, the valuation of this property increased by £7.4 million over the quarter - an increase of 87%. This increase was partly due to the premium to rental value that was achieved, but also the quality of the covenant. It wasn't a straightforward letting and involved us having to negotiate a surrender with an existing tenant.



### Milton Keynes

We successfully let an industrial unit in Milton Keynes to F&F Stores Limited, an online retailer. This 85,000 sq ft unit became vacant last summer after CEVA vacated. We took the decision to undertake a substantial operational Net Zero Carbon enabled refurbishment. We completed this in March of this year on time and on budget at only £17 per sq ft after recovery of dilapidations. We are pleased to report that the EPC rating increased to A+ and the rent achieved of £699,250 per annum p.a. (£8.25 per sq ft) is 34% ahead of the ERV of £520,000 p.a. (£6 per sq ft). The valuation of this property has also increased by £4.7 million, +64%, since this time last year.



### Huddersfield

Also in the industrial sector, we completed two lettings in Huddersfield to Hoco Parts UK Limited and Automint Limited. Both tenants have signed new ten year leases (five year break at Automint) with attractive rent review provisions in year five to the higher of open market value or RPI (latter collared and capped at 2%-4% per annum respectively). Interestingly the previous tenant (single occupier across both units) only vacated in March 2021 when their 10 year lease expired and we immediately re-let the unit in April whilst increasing the rent by 35% since purchase, securing another straight 10 year lease term and not incurring any capital expenditure. This asset was acquired ten years ago for £2.8 million, reflecting a yield of 10.5%. The asset management and tightening yields has driven significant capital appreciation more than doubling the capital value, whilst incurring minimal void and demonstrates how property can be highly income generative.



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# Portfolio Report - Purchases

The Fund made eight acquisitions in seven separate transactions during the year to 24 June 2022, investing **£115 million**. As part of one of these transactions, we have also agreed to purchase two further assets when construction completes, investing a further £8 million.

Additional capital investment of approximately £2.6 million was made into existing assets and also through funding pre-let developments, refurbishments, securing planning permissions, combating obsolescence and funding general improvements elsewhere within the portfolio to help deliver future ESG enhancements and income growth.

The purchased properties are of high quality and there is zero vacancy (compared to MSCI at 10.0%). The leases are long and have on average **18.5 years** remaining until expiry and **17.5 years** on average to earliest break. **60% of the contractual rent benefits from uncapped RPI linked rental increases**. A further 18% benefits from CPI linked rent reviews, some of which are also uncapped. The remainder are collared and capped at 0-4% p.a. or 2-4% p.a. The average yield to the Fund inclusive of acquisition costs is 4.8%, above the MSCI quarterly index average net initial yield of 4.4%, as at June 2022.

These assets therefore provide a powerful combination of an attractive income return, long leases, guaranteed income growth and strong locations.

## The Fund’s purchases over the last 12 months were:

### 1. Bristol

The acquisition in Bristol comprises an eight unit trade counter industrial estate extending to 62,000 sq ft and is let to occupiers such as Screwfix, Tastetech, Cubico Bathrooms and Mon Motors Group. The asset occupies an excellent location in a densely populated urban area, very close to the City Centre and close

to one of the Fund’s existing holdings in the Brislington area of Bristol. The rents are low at £6.95 per sq ft and the estimated rental value of £9.50 per sq ft has already been proven on the estate. The property was acquired for a price of £10.5 million reflecting a yield of 4.1%, rising to 5.5% at rent review.



**Bristol**  
Purchase price: **£10.5 million**  
Lease length: **4.5 years**  
Yield to the Fund: **4.10%**



**Oxford**  
Purchase price: **£33.0 million**  
Lease length: **25.0 years**  
Yield to the Fund: **4.75%**

**£115 million**  
invested in 12 months  
**4.80%**  
average yield to Fund

### 2. Battersea, London

Battersea comprises a 121 bedroom hotel, located close to the River Thames and 10 minutes from Clapham Junction station. The asset is let on a lease with almost 28 years unexpired and benefits from uncapped, index linked rent reviews increased in line with RPI. The price of £36.5 million reflected a yield to the Fund of 4.5%. It also provides us with a significant redevelopment opportunity in the future. The building is only 3-5 storeys tall and it is likely a building of up to 19 storeys could be accommodated here.

### 3. Newcastle-Upon-Tyne

The third asset was the easyHotel in Newcastle, which comprises a 104 bedroom hotel let to easyHotels Ltd on a lease expiring in December 2042, with a break option in 2037. There is also a ground floor restaurant let to a local seafood operator, who has been in occupation for almost 30 years. The hotel is let at a low average of rent £4,250 per room and is also reviewed to CPI every 5 years, collared and capped at 0-4% per annum. The price of £7.7 million reflected a yield to the Fund of 6.1% rising to 6.75% at review later this year.



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# Portfolio Report - Purchases

## 4. Daventry

Daventry comprises a multi-let industrial park extending to 9.54 acres and four units let to three different tenants at low average rents. The largest unit, accounting for two thirds of the space is let at a rent of only £4 per sq ft and the price of £16 million, reflected a yield of 5.6% and a low capital value of only £84 per sq ft – well below replacement cost.

## 5. Leeds

The Leeds asset is located less than 2 miles from the City Centre and comprises a 73,000 sq ft logistics unit let at a low rent of £5.75 per sq ft. The site cover at 33% is also low and the unit benefits from a generous eaves height of over 12m. The unit is let for a further 10 years, with an option to break at year five. The rent review mechanism in year five allows the rent to be reviewed to the higher of open market or CPI compounded (collared at 2% and capped at 4% per annum). The price of £8.4 million reflected a yield to the fund of 5% and a capital value of £115 per sq ft, again below replacement cost.



**Leeds**  
Purchase price: **£8.40 million**  
Lease length: **10.0 years**  
Yield to the Fund: **5.00%**

## 6. SSH Portfolio

This portfolio comprised the acquisition of four freehold interests in Dorchester, Poole, Nailsea and Shanklin IOW. At Dorchester we have acquired the site and will pay the balance once the building is completed; Poole and Nailsea are effectively ‘forward commitments’ and the Fund will purchase the assets when completed and the leases are in place; the Isle of Wight property is already completed and income producing.

The properties are all let to Housing Associations with the Leonard Cheshire Charity providing the care package. Dorchester, Poole and Nailsea are all let on 10 year leases with a landlord option to call for a further 10 years, giving in effect a 20 year term certain. All three leases benefit from annual CPI linked rent reviews capped at 4% p.a. The Isle of Wight property is let on a straight 20 year lease with annual uncapped CPI reviews.

The total consideration for the four properties will be £11.4 million, reflecting a yield to the fund of 4.9%.

Along with the reliable income stream, a key attraction is the significant social impact that comes with this investment – providing a home for life for vulnerable young adults with life-long learning difficulties or mild physical disabilities. An important distinction is that the sub-sector provides independent living for the residents with care provided by the Local Authority or an independent care provider, typically a charity, but the level of care is relatively low intervention whilst being 24/7. They are discussed in more detail under the case study on pages 18 and 19.

## 7. Oxford

The largest acquisition during the year was an independent school in Oxford. The property is let to d’Overbroeck’s (part of Nord Anglia Education) and comprises a state of the art co-educational school on Banbury Road. The property was purpose built in 2017 and is let to d’Overbroecks on a 30 year lease expiring on 17 July 2047. The lease therefore has 25 years remaining and also benefits from annual, uncapped RPI linked rent reviews. The price paid reflected a yield to the Fund of 4.75%. This pricing seems attractive for a valuable piece of real estate in Oxford, particularly with the very long lease and uncapped index linked rent reviews paid annually.

It is located opposite the purpose built student accomodation which the Fund acquired in 2017. The asset was sourced off market through a relationship built up with the owner over a five year period. We are certain this asset would attract a premium if openly marketed.



NO

stamp duty land  
tax payable

NO

management fees  
added to capital

NO

derivative  
products

NO

performance  
fees

NO

debt\*

NO

withholding tax

\* There is a fixed revolving credit facility which remains undrawn



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# Portfolio Report - Sales

The Fund sold seven properties during the year to June 2022, all but one in the retail sector. There were five high street shops, one neighbourhood shopping scheme and one car dealership. Five of the assets were openly marketed and generated competitive bidding. Thames Ditton and Cheltenham were special purchaser situations which weren't openly marketed and where we agreed a sale to the tenant and the local Council respectively. Cobham also sold to the tenant who again was a Special Purchaser.

The combined valuation of these seven properties in June 2021 was £23.65 million and they collectively sold for £27.54 million, a net initial yield of 5.95%, a premium of £3.905 million, 16.5%. They delivered approximately £800,000 in income during the year up until their date of sale.

## The Fund's sales were:

### 1. Chapel Market, Islington

This was originally acquired as part of an in-specie transfer in December 2009 and was transferred into the Fund for a price of £2.725 million. During the twelve years of ownership we have managed to retain both of the original tenants, Superdrug and JD Sports, and have negotiated new leases twice on each unit. Lease lengths that tenants will accept have reduced in the retail sector and at the point of sale they both had approximately 2.5 years remaining. After a full marketing campaign, we accepted the highest bid of £3.765 million, reflecting a yield to the Fund of 4.75% and a premium of 19.5% to the most recent valuation of £3.15 million.

### 2. Halewood

This property comprised a local shopping park let to Aldi, Home Bargains, Iceland, Tesco and a number of smaller shop units. It lies adjacent to the bus station and a large NHS centre and benefits from a high percentage of essential retailers. However we were concerned that Aldi may look to relocate from the scheme at lease expiry and the property was very management intensive with eight smaller shop units regularly changing hands. We received a number of offers and felt we extracted the maximum value. The sale price was £9.38 million, marginally above the most recent valuation and reflecting a yield to the Fund of 7.07%.

### 3. Marlborough

Marlborough is an attractive market town and we recently agreed a new five year lease to Superdrug at a rent of £100,000 per annum. After an extensive marketing campaign we accepted the highest bid of £1.7 million, reflecting a net initial yield of 5.5%. This was 21.4% ahead of its previous valuation of £1.4 million.

### 4. Thames Ditton

We sold the Jaguar Land Rover, Guy Salmon service centre in Thames Ditton. The property was let to Sytner until August 2026 at a rent of £358,375 per annum. Sytner wished to exit their lease as they have relocated to a new combined facility on the M3 at Sunbury. In order to terminate their lease liabilities at this property, they commenced negotiations to buy in the freehold.

The price agreed of £7.75 million, reflected a net initial yield of 4.3% and was considerably in excess of the valuation – this asset was valued at only £5.4 million in June 2021, prior to the offer being received. We believe this reflected a special purchaser premium and it has also delivered £2.5 million in income since acquisition.



### 5. Cardiff

This property was let to a Burger King franchisee on a lease expiring in 2023 and last year we agreed to take a surrender of this lease in return for a payment to the Fund of £575,000. We simultaneously let the unit to Jollibee on a new 15 year lease at £144,000 per annum, with a tenant break option after 10 years. Having completed this asset management we took the opportunity to market the asset and sold it to a private investor for £2.16 million, reflecting a net initial yield of 6.27%.

### 6. Cheltenham

The asset was acquired by the Fund in December 2014 as part of a larger portfolio of two supermarkets, three retail warehouses, two high street shops, two south east office buildings and one industrial unit. Despite being an attractive spa town, the retail market in Cheltenham has not held up well and whilst we managed to retain the tenant for a further short term of three years at expiry in 2021, we had to reduce the rent from £128,600 p.a. to £85,000 p.a.

Subsequently, the adjoining owner received an offer from the local council, who also expressed an interest in acquiring the property and following the lease regear it was deemed to be a suitable time to dispose of this asset to a special purchaser. The price achieved of £1.125 million was in line with valuation and reflected a yield of 7.1%. The Fund received £920,000 in income over its hold period.

### 7. Cobham

The most recent sale comprised a retail unit in Cobham where we had recently completed a new 15 year unbroken lease with no rent free to Pearl Chemists. We took the opportunity to openly market the asset and subsequently sold it to the tenant for £1.635 million, a net initial yield of 4.75%. This asset was valued at only £925,000 prior to completing the lease and the sale price represented an 81% premium to valuation.



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# Lease Expiry Profile

The Fund’s average lease length to expiry at 11.4 years is almost 25% longer than the market average at 9.1 years.

In terms of lease length for Q2 2022, the Fund has 35.1% of income secured on leases for in excess of 10 years, this is more than double the All Balanced Funds average of 17.2%.

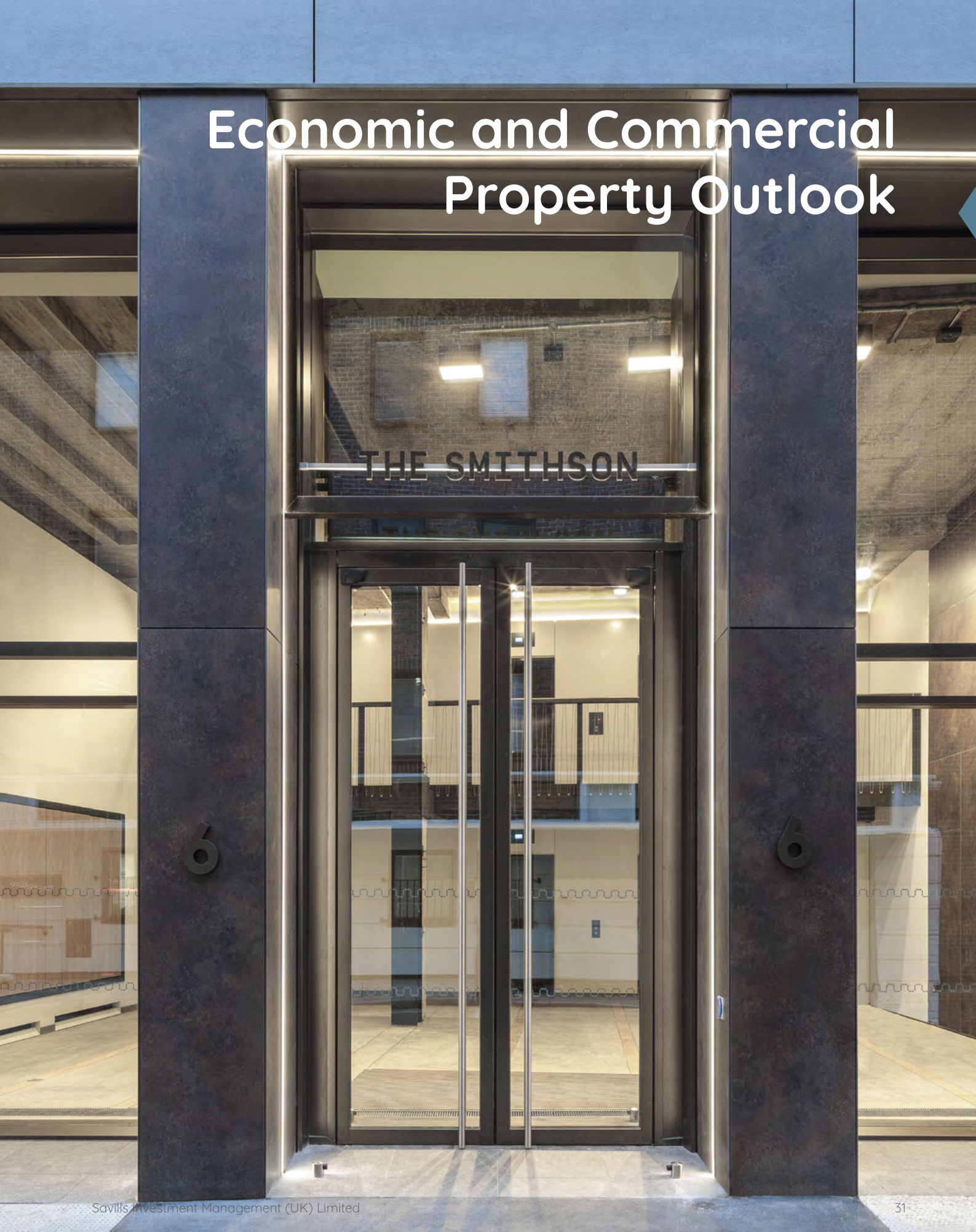
When analysing income in excess of 20 years, the Index has 4.5% secured on average, whilst the Fund has almost three times that at 11.7%. This level of income security is reassuring during these times of heightened economic uncertainty. The Fund also has the second lowest void rate (3.5%) of the All Balanced Funds Index compiled of 32 funds.

## % of Income from Leases Expiring after 10 Years

Authorised Property Unit Trusts	
Standard Life Investments UK Real Estate Fund	38.3
The Charities Property Fund	35.1
PATRIZIA Hanover Property Unit Trust	32.9
Tritax Property Income Fund	30.7
Schroder UK Real Estate	29.9
M&G Property Portfolio	24.6
Janus Henderson UK Property PAIF	24.2
Standard Life Investments Pooled Pension Property Fund	24.1
Royal London UK Real Estate Fund	20.8
Mayfair Capital Property Income Trust for Charities	18.4
L&G UK Property Fund	18.2
Lothbury Property Trust	17.8
AEW UK Core Property Fund	17.3
The Local Authorities’ Property Fund	16.3
BMO UK Property Fund	15.1
COIF Charities Property Fund	14.5
Legal And General Managed Fund	13.5
Mayfair Capital Property Unit Trust	13.4
Federated Hermes Property Unit Trust	13.0
BlackRock UK Property Fund	12.0
Aegon UK Property Fund Limited	10.7
Triton Property Fund LP	10.3
Threadneedle Pensions Ltd	9.9
Royal London Property Fund	9.2
Nuveen Real Estate UK Property Fund	7.5
Threadneedle Property Unit Trust	7.2
LF Canlife UK Property ACS	5.4
CBRE UK Property PAIF	2.8
Kames Capital Active Value Property Fund	2.7
Kames Capital UK Active Value Property Unit Trust II	2.2
Kames Capital UK Active Value Property Unit Trust	0.8
Fidelity UK Real Estate Fund	0.1
All Balanced funds (un-weighted/weighted average)	15.6/17.2%

## % of Income from Leases Expiring after 20 Years

Authorised Property Unit Trusts	
PATRIZIA Hanover Property Unit Trust	13.0
The Charities Property Fund	11.7
Aegon UK Property Fund Limited	10.5
Royal London UK Real Estate Fund	10.1
Lothbury Property Trust	8.3
Federated Hermes Property Unit Trust	8.0
Tritax Property Income Fund	7.1
Standard Life Investments UK Real Estate Fund	7.0
COIF Charities Property Fund	7.0
The Local Authorities’ Property Fund	6.0
M&G Property Portfolio	6.0
L&G UK Property Fund	5.6
BMO UK Property Fund	5.6
Legal And General Managed Fund	5.0
Standard Life Investments Pooled Pension Property Fund	4.8
Schroder UK Real Estate	4.5
Mayfair Capital Property Income Trust for Charities	3.6
Mayfair Capital Property Unit Trust	2.8
BlackRock UK Property Fund	2.0
LF Canlife UK Property ACS	1.5
CBRE UK Property PAIF	1.4
Threadneedle Pensions Ltd	1.1
AEW UK Core Property Fund	1.0
Kames Capital UK Active Value Property Unit Trust	0.8
Kames Capital UK Active Value Property Unit Trust II	0.5
Threadneedle Property Unit Trust	0.3
Kames Capital Active Value Property Fund	0.1
Janus Henderson UK Property PAIF	0.0
Fidelity UK Real Estate Fund	-
Royal London Property Fund	-
Triton Property Fund LP	-
Nuveen Real Estate UK Property Fund	-
All Balanced funds (un-weighted/weighted average)	4.2/4.5%



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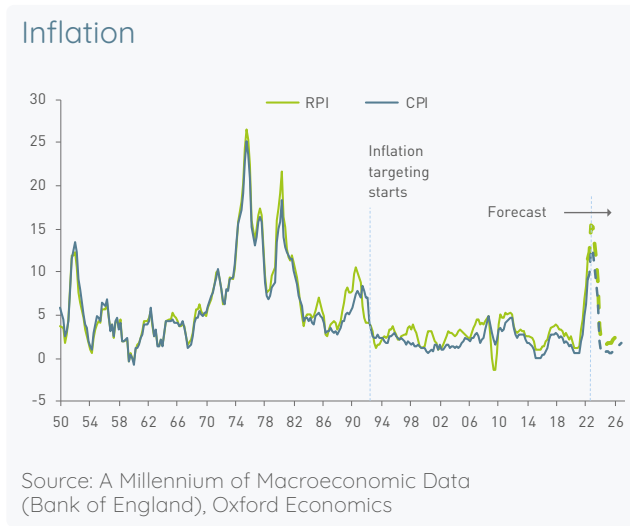




# Economic Overview

The Bank of England produced a surprisingly pessimistic outlook for the UK economy in its latest monetary policy report. It projected that the UK would enter recession in Q4, with output forecast to fall in each subsequent quarter through to Q4 2023. Whether they are overly pessimistic or not remains to be seen and other forecasters are suggesting that economic growth will slow but we will avoid recession - for example, Oxford Economics forecasts that 2023 GDP will slow to 0.8% in real terms. However, either way there is clearly a lot of bad news circulating and undoubtedly some serious economic headwinds. We have a cost of living crisis, inflation running at 10.1% (11.8% on the RPI measure), increased electricity and fuel costs, rising interest rates and falling consumer sentiment (said to be at its lowest level since records began in 1974). Britain's trade deficit as a share of GDP reached a higher level in the first half of this year than in any other six-month period since records began in the mid-1950s and the pound has touched 1985 lows against the dollar. Government borrowing hit £4.9 billion in July, ahead of City predictions of some £2.8bn, while debt interest payments climbed to £5.8 billion, up from £3.5 billion in the same month last year. Company insolvencies in England and Wales surged last month to 1,827, 67% higher year-on-year and 7.5% higher month-on-month, with firms hit by the impact of price rises.

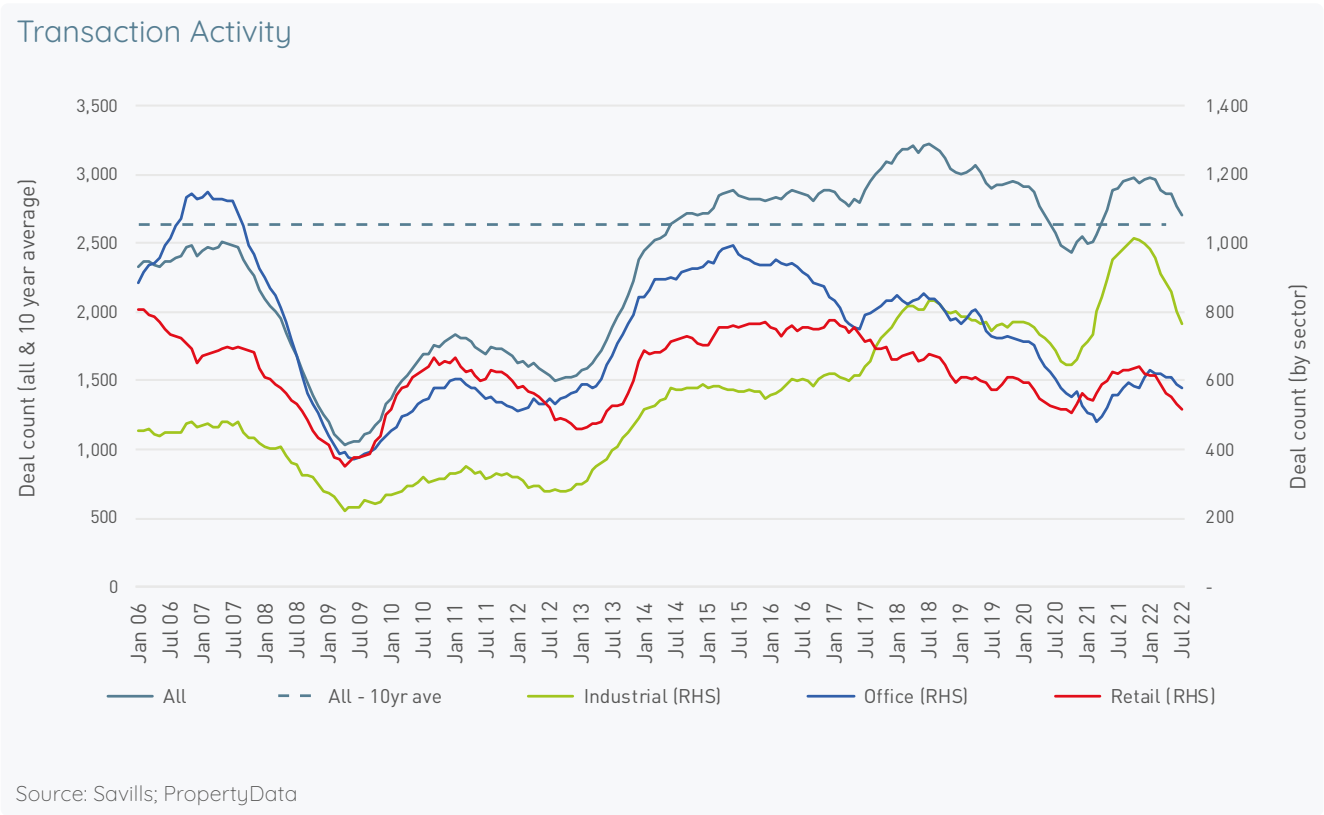
Inflation is the big concern for economists. Once set in it can be self-generating and its symptoms, including the increased cost-of-living, the erosion of the value of savings and the increasing cost of debt, are a major headache. The Bank of England has continued to increase its inflation forecasts and is now expected to peak towards the end of the year at 13%, however some commentators are suggesting it may reach 18% or possibly 22% and interest rates have already risen from 0.1% to 2.25% in 9 months.



# Economic Overview

In addition, the occupational markets are in reasonably good health. The lack of development brought about by Brexit, the resulting political uncertainty, Covid and now the war in Ukraine has restricted supply. Vacancy rates throughout commercial real estate are low, particularly in the logistics and retail warehousing sector. Admittedly there is still some weakness in the office markets but workers are returning to their offices. In the high street and shopping centre sector, rents have been falling due to higher occupational costs and a significant availability of empty units – but this has been happening for years. Against this whilst many believe the industrial/logistics market to have peaked, vacancy rates in this sector are at all time lows and it saw the highest quarterly take up figures in history in Q2 2022.

Hotel revenue per room (Rev-Par) and student numbers are higher than pre-pandemic levels and daily data for July and early August points to an upward trend in leisure-related spend in the face of rising inflation, led by travel and accommodation spend. Demand in the residential market remains unabated too despite the headwinds. In terms of Commercial Property lending, loan to value ratios are almost half what they were in 2007.



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# Retail - In Focus

The intensifying cost of living crisis continues to influence the consumer market, as rising costs of energy, groceries and transport continue squeezing disposable income for many households.

There can be no doubt that this will negatively affect spending behaviour at a time when retailers are also facing dramatic rises in their costs. What people cut back on in hard times is a fairly well-rehearsed story, with spending on discretionary items and bigger ticket items likely to see the largest falls.

The High Street and Shopping Centre market continues to see real challenges. The vacancy rate stands at 14.1% and 19% respectively and any potential occupier will be able to play landlords off against each other and demand significant incentives. Whilst rents are rebasing there just aren't the retailers available to fill the holes that have been left through the demise of many well known brands.

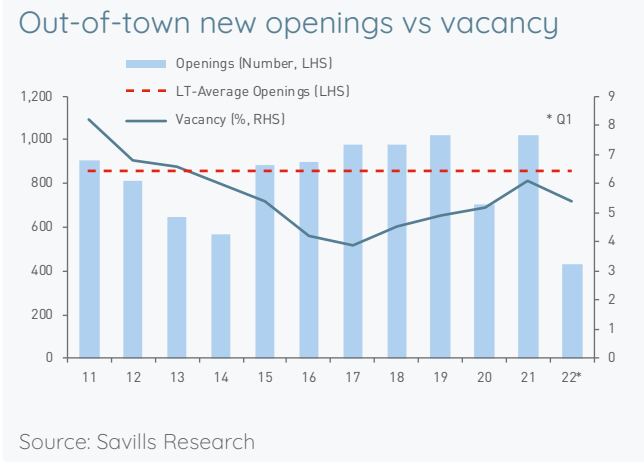
Conversely the out of town retail sector has shown strong resilience in recent years to the challenges it has faced, most notably the growth of e-commerce and more recently in its response to the global pandemic. Despite these challenges, retailer performance and covenant strength remains strong, standing out favourably versus the High Street and Shopping Centres. It is clear that what made retail parks appealing to consumers at their inception, as well as during the pandemic, is what remains key to their continued success, namely convenient, easily accessible, highly visible roadside locations with large units and adjacent free parking. Alongside this, there is an ever increasing propensity for landlords to include restaurants and convenience food and beverage.

This is backed up by retail park footfall, which continues to outperform the rest of the UK retail market, often matching 2019 levels while other sub-sectors still lag far behind. In addition, store acquisition activity remains particularly strong.

## The 10 Most Acquisitive Retail Operators Over the Last Two Years

Occupier	Number of stores	Total Sq ft	Average Sq ft
Lidl	128	2,346,386	18,331
Aldi	100	1,681,184	16,811
B&M	72	1,246,083	17,306
Home Bargains	65	1,533,927	23,599
Sports Direct	23	779,737	33,901
M&S	18	628,837	34,935
Iceland/Food Warehouse	36	475,593	13,210
Pure Gym	42	427,241	10,172
JD Gyms	14	291,735	20,838
The Gym	29	273,438	9,429
	<b>527</b>	<b>9,684,161</b>	<b>18,376</b>

2021 saw the highest number of new openings in 11 years. As a consequence, the vacancy rate across the retail warehouse sector has fallen to just 5.4 per cent. With the appetite for new store openings showing no sign of slowing down, we witnessed net average rental increases of 10.3% during the year. Investment volumes in the retail warehouse also increased to £3.76 billion in 2021. That is the most active the market has been since 2015 and the fourth highest turnover of the last 21 years.



The sector holds a great deal of appeal for occupiers, the ease for click and collect fulfillment, lower service charges, flexible layout of units, sustained footfall from foodstore anchors and competitive rents are all factors that continue to bolster the performance of retail parks.

In terms of the brands, it is the value oriented operators that continue to top the charts of the most acquisitive retail and leisure operators. Lidl acquired the highest number of new stores, but we also saw a strong showing from the other food, discount and gym operators.

# Retail - The Fund

We are still strong believers in the fundamentals of retail warehousing and its ongoing performance. Occupational market indicators remain positive with downward pressure on the current vacancy rate. Retailer performance and covenant strength remain strong in the sector.

Our main focus within the Fund is the food, discount and convenience sector. The discount retailers have become increasingly popular - in 2008 the market share of discounters in the UK was only 4.6%, today it is 20%.

Within the Charities Property Fund our exposure to the retail sector is 18.4% of the total fund. 99.5% of this is in the out of town and supermarket sector. The fundamentals for this sub sector remain strong, particularly when facing a cost of living crisis and it has been a strong performer over the last 12 months.

The average rent per sq ft for the whole portfolio is only £14.50 per sq ft, £16.80 in London and the South East and £12 per sq ft across the rest of the UK. These rents are 30% less than the average for the UK and indicates our focus on discount and convenience. By value, just over half is located in London and the south east.

Tesco is our largest retail tenant at 25% of total income. We also have a number of other food retailers represented such as Aldi, Lidl and Waitrose. The remainder are predominately made up of discounters such as Food Warehouse, B&M and Homes Bargains. Where we do have fashion retailers they are best of class and in London where there is a chronic lack of supply.

## Our Tenants



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# Offices - In Focus

There have been some stark headlines recently with the office sector said to be facing a “perfect storm” of hybrid working, a recessionary demand slump and environmental requirements set to hit values by at least 12% over the next two years. Indeed, the amount of office space available to let in London has jumped by 25 per cent since the beginning of the pandemic, underscoring how working from home has drastically changed the commercial property landscape. Pre-pandemic there was about 20 million sq ft of available office space in the capital and despite falling recently, this has now risen to 24.5 million sq ft, significantly above the long-term average of 16 million sq ft. By comparison, in the aftermath of the global financial crisis 28 million sq ft was available.

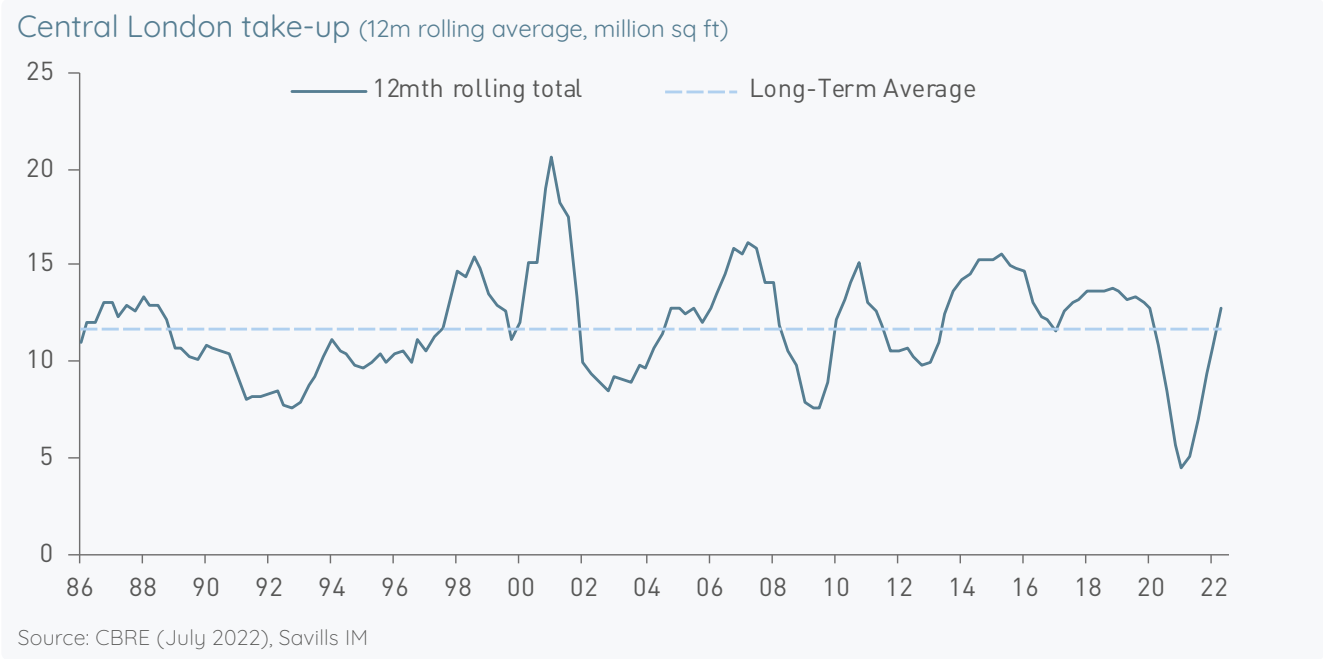
This does however mask certain trends in that most of the offices being vacated are secondary offices - older, less environmentally friendly blocks. There is a divergence with best-in-class buildings in best in class locations still maintaining strong rental levels and tenant demand. Additionally Central London office demand has surged recently, with 3.8 million sq ft of space leased in Q2 2022. This was the strongest quarter for take-up since Q4 2018 and almost one-third higher than that 10-year Q2 average. On a 12-month rolling basis, take-up now sits above the long-term average for the first time since the Covid-19 pandemic started. However, with the rate of employment growth forecast to ease and fall next year, the occupier market won't be without its challenges in the coming year.

Generally, the change in working practices is now settling into a regular pattern with many businesses embracing flexible working and incorporating working from home into occupier relocations. Many fit outs are now based on one person per 10 sqm and new working practices have increased levels of

collaboration space, wellbeing, outside space and end of trip facilities. There is an ever-increasing focus on sustainability and the genuine integration of this into new working environments. This is at the forefront of both occupiers and developers' strategies.

Despite lower transaction volumes there is still a significant amount of capital wanting to invest in Central London, particularly in the Value-Add sector where best in class can be created and there is currently very limited supply of this stock. There are also a number of substantial transactions currently under offer, totaling over £2 billion, which including the sale of 21 Moorfields by Land Securities for circa £1 billion, the sale of 20 Cabot Square in Canary Wharf for circa £500 million and Helical's sale of the Kaleidoscope Building in Farringdon for £160 million.

Occupier demand continues to be focused on high quality space in high quality locations.



# Offices - The Fund

The office sector is one of the smallest sector exposures represented within the Charities Property Fund portfolio at only 17.1% of the total portfolio, 32% below the Index average of 25%.

Where the Fund owns offices, we have always focused on best in class affordable buildings, with alternative uses. Our London portfolio comprises five buildings collectively making up 60% of our UK office portfolio, but half of our London exposure is concentrated in one best in class building in Farringdon. Two buildings were sold in 2020 and both sold ahead of valuation and backed up the message of strong investor demand in London.

Across the UK, our buildings are generally small, with an average floor plate of less than 5,000 sq ft and are attractive to a wide range of potential occupiers. Importantly they are all on a human scale, the average building size is only 20,000 sq ft, which allows occupiers to have their own front door, they are less energy intensive - windows can be opened and most of them have already been adapted for multiple, alternative uses over their life cycle. The average rent payable is just over £46.50 per sq ft within London, compared to prime rents of over £100 per sq ft. Outside of London the average rent is only £21 per sq ft.



However, there is undoubtedly weakness in the London market and whilst our vacancy rate is low overall, 58% of all vacancy is found in London offices, despite this sub-sector only representing 10.0% of the total portfolio. This equates to a vacancy rate of 21%. We believe this is temporary and this space will be let, but it has been hampered by a wait and see approach amongst occupiers.



Outside London we have witnessed a very different story. Here we own a further 15 assets providing affordable space in locations such as Maidenhead, Staines, Cheltenham, Bath, Birmingham, Bristol and Brighton. We are in the process of refurbishing an office building in Maidenhead, but apart from this we only have one vacancy and this building is under offer to sell. This equates to a vacancy rate of 5%, similar to the portfolio average. We have also seen rents increase by over 20% on average through recent lettings in Brighton, Bath and Clifton.



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# Industrial & Distribution - In Focus

Investment transaction volumes for the first half of 2022 continued on a trajectory set by the record-high of 2021 (£18.1 billion). Big-ticket investors were still focused on increasing their exposure to logistics, however, the bright blue skies of the past six months have now started to darken. Amazon’s announcement that it was scaling back its warehousing plans, caused a shockwave through the sector with Segro’s share price falling 10% in one day. Rising debt costs, soaring inflation and concerns over exit yields have meant that the UK’s most active buyers of logistics, namely the Institutional Funds and US Private equity, have ground to a halt. This increased cautiousness has seen a softening of demand for the sharpest priced assets with investors looking towards more opportunistic sectors.

With the share of online retail sales continuing to ease, it is also likely to mean that occupiers now have, or will have, excess stock, as Amazon announced earlier in the year. Indeed, on the basis of the relationship between take-up and the online share, a pull-back in demand appears on the cards in the coming quarters. It doesn’t appear that the pandemic has led to a permanent increase in the online share over and above that already predicted at 22.4%. See Chart 1 below:

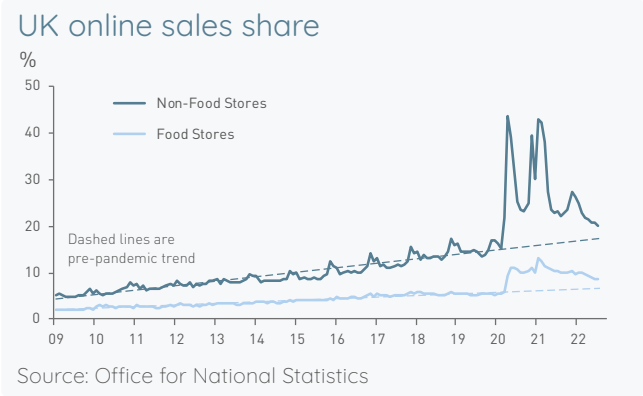
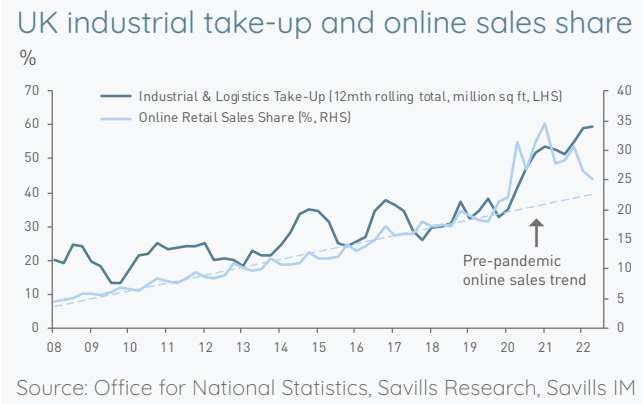
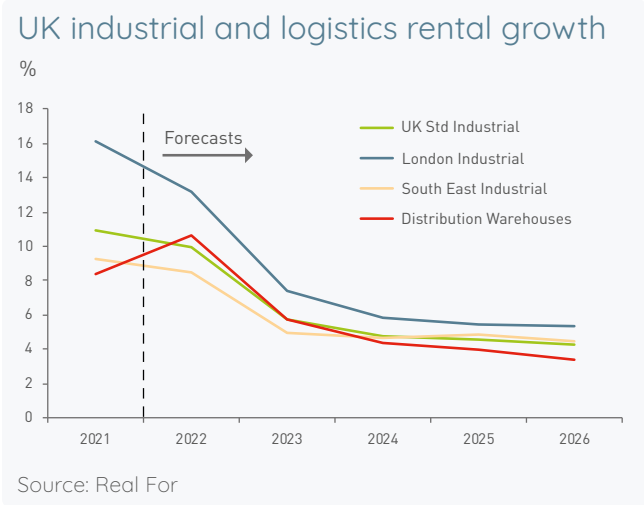


Chart two would also indicate a likely pullback in industrial and logistics take-up following a sharp increase in demand, before the general upward trend continues. Obviously online is not the only driver of demand but it is hard to see how the level of growth can be sustained.



That said, the market fundamentals remain remarkably strong and occupier demand continues to be overwhelmingly positive, in spite of the increasing economic uncertainty. 15 million sq ft of new leases were signed in Q2 alone. This was the second best Q2 on record and took the six month total to 28.6 million sq ft, 7% above last year and the highest on record. Rents have risen by an average of 16% since the start of the year and vacancy rates have dropped to a record low of just 3.0%. With continued rental growth expected to outperform other sectors, industrial is likely to remain in favour.

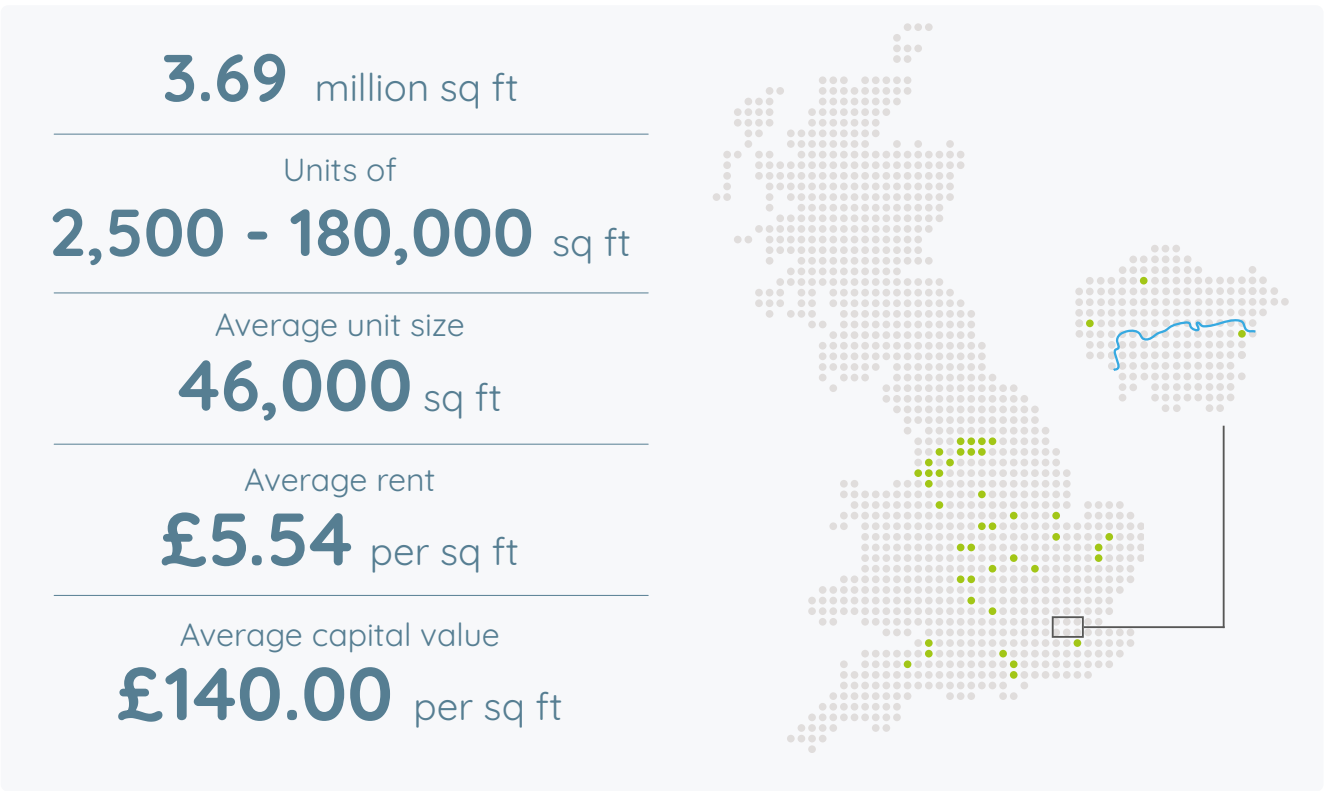


The current demand-supply imbalance is likely to support rents, but as is already starting to be seen in the data, the strength of rental growth is waning. This is expected to continue over the next couple of years. See Chart 3. Given pressure on household spending and a likely correction in take-up, the short-term risks to rental growth, particularly for larger units, are to the downside.

# Industrial & Distribution - The Fund

Industrial & Logistics is our largest exposure within the Fund and has always been our most favoured sector. Our current exposure is 36.2%.

The Fund displays a very well diversified estate of industrial and logistics units extending right across the UK in 47 separate assets providing 80 individual units and covering 3.7 million sq ft. Importantly the majority of this is not “big box” but urban logistics. There is a distinct difference and the unit sizes are generally small benefitting from a much wider pool of potential occupiers. The average rent per sq ft is low at only approximately £5.50 per sq ft and the average capital value per sq ft is below replacement cost, with costs of construction nearing £150 per sq ft. This is very defensive. We are also not restricted to logistics and the Fund portfolio extends to precision manufacturing, lithium battery production, NHS critical infrastructure, self storage, hi-tech manufacturing, data centres and wine storage units to name a few.



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# Alternatives - In Focus

The alternatives sector continues to be dominated by long dated, inflation linked income streams. A number of the subsectors provide resilience to economic turbulence, for instance critical infrastructure such as medical, life sciences and education, but also student and hotels can defy the wider economic gloom with further education and staycations proving attractive in constrained times. Health & Fitness has rebounded strongly since the pandemic and automotive has been a notable strong performer given the economic headwinds.

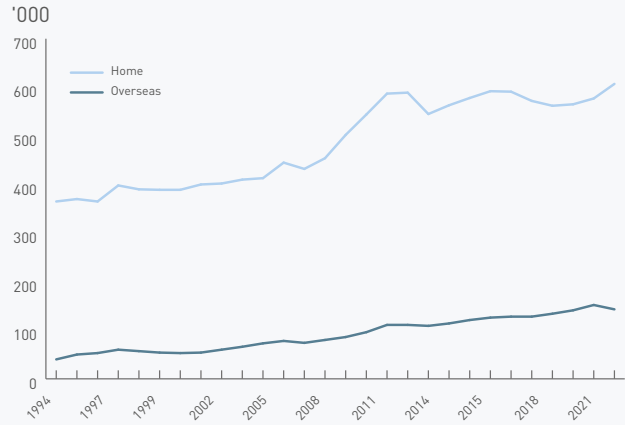
To pick out a few of these sectors we will start with the automotive sector. Unsurprisingly the vast majority of manufacturers have placed expansion plans on hold whilst the sector battles against rising energy and fuel costs as well as supply chain issues. This has constrained the delivery of new vehicles and new car registrations fell by 15.8% to 120,000 units in April 2022. However, dealer groups have generally reported strong trading with revenues driven by increases in used vehicle and aftersales, which continues to be the most profitable part of the business. In many cases the prices of second hand cars have outstripped those of new cars. Lookers reported a pre-tax profit of £50 million for the first half of 2022 on revenues of £2.23 billion and Sytner's US parent reported a turnover of £5.5 billion for 2022 (2021: £4.6 billion) despite a 9.7% decline in new car sales. Used car sales were up 12.9%.

Recent high-profile M&A activity has seen Pendragon attract takeover interest from major shareholder Hedin Group, Sytner acquiring Specialist Cars, Marshall's acquiring Motorline and Constellation Automotive's (Cinch & Webuyanycar) have built a 19% stake in Lookers as they look to advance from internet only to franchised car retailing.

### Student

The number of British 18-year-olds aiming to go to university directly from school continues to increase at a record pace. There were 750,000 applications for full-time undergraduate places through UCAS in 2021 and around 560,000 of these applicants were accepted. There was concern that limits on travel and the type of teaching possible with coronavirus restrictions would lead to a large drop in student numbers, but this has quickly reversed. Applications from other overseas students increased to record levels, despite concerns over Covid-19. The latest figures cap a decade-long increase in the proportion of school-leavers opting for higher education. In England alone, 44% of all 18-year-olds applied in January, the highest on record. Ten years previously, in 2013, just 33% did so. Applications were up a further 19% in 2022.

Accepted Applicants through UCAS

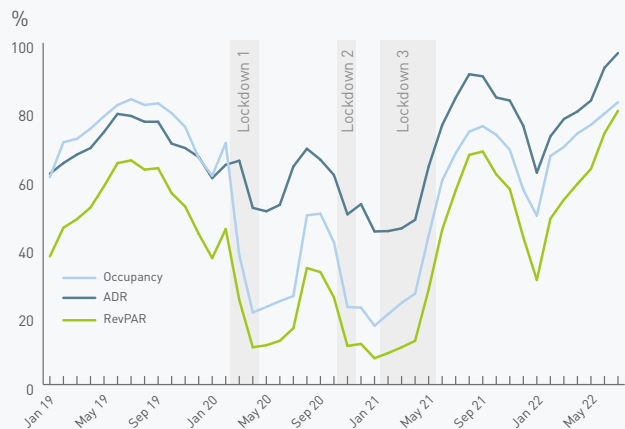


Source: UCAS

### Hotels

Hotels have bounced back from Covid, with this being a temporary blip rather than a structural change. London occupancy and revenue per room remains below pre-Covid levels and this is no doubt due to some continuing restrictions on international travel. Regional hotels have fared much better with occupancy and average daily rates at or above where they were pre-Covid-19.

Regional Hotel KPIs



Source: STR

# Alternatives - The Fund

The Charities Property Fund was an early mover into this sector and we have built a considerable holding in alternatives comprising 33 assets and close to a quarter of the entire portfolio. This is ahead of the MSCI Index at approximately 17.7%.

The majority, at over 50%, is invested into accommodation assets, namely Hotels, Serviced Apartments, Student Housing & Specialist Supported Housing. Generally these all have alternative uses in the residential sector and therefore a high percentage of the value tends to be underpinned by the land and buildings.



Poole

The Fund has hotel and serviced apartment assets in Bath, Brighton, Battersea, Manchester, Newcastle and Poole Harbour and specialist supported housing in Dorchester and the Isle of Wight. Our exposure here is dominated by quality sites - these are all strong locations providing multiple income streams across commerce, tourism, conference and events. We saw revenue per room in Brighton and Bath up 26% and 27% respectively year on year.

A further 10% is invested within the education subsector with the recent acquisition of the school in Oxford. A number of these alternative assets have the benefit of being 'critical infrastructure' and therefore much less cyclical than some other sectors.

Approximately 6% of our exposure (1/4 of alternatives) is invested into the Automotive market. We remain optimistic about this market which despite the economic uncertainty, this doesn't seem to have adversely affected the dealer groups. We continue to witness reliable tenants with growing revenues. The showroom model links well with internet sales with a physical presence needed for customers to view cars and provide a sales experience and also for servicing and repairs.

A number of the manufacturers appear to provide an underwrite to these dealerships as they need the access to

market, meaning that even if an individual dealer or group failed it is highly likely a new incumbent would take over the running.

Within the portfolio we have seen significant capital investment by the tenants into over half of our assets. Not only does this demonstrate their commitment to the locations, but it demonstrates they are well capitalised and improves the ESG credentials of the assets. Underlying all this once again is the quality of the locations, from Chigwell and Chester to Harrogate and Poole. The often multiple alternative uses and high underlying site values provide further comfort.



Harrogate

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# Charities Property Fund Team

Savills Investment Management is a specialist international property investment management business with c.£20.78 billion of assets under management (as at 30 June 2022) and an experienced team of c.300 professionals located in 16 offices across Europe and Asia. It has provided investment services for 30 years, comprising separate accounts and investment mandates on an advisory or discretionary basis, and the establishment and management of pooled property funds.

## Property



**Harry de Ferry Foster**  
Fund Director

Harry de Ferry Foster is the Fund Director for The Charities Property Fund with responsibility for all aspects of the management of the Fund and for ensuring the Fund fulfils its objectives. He has held this post for 15 years.

Harry's role encompasses setting the strategic framework of the portfolio, equity raising, investor relations and marketing, sourcing property investments and investing new subscriptions and managing the Fund team.

Harry is also head of Savills Investment Management UK business and has been with Savills Investment Management for 20 years. He sits on the UK Management Committee, the Transaction Advisory Committee, the ESG Committee and the Portfolio Advisory Committee.

Harry started his career at Cushman & Wakefield (formerly Healey & Baker) in investment agency before assisting with the establishment of their Fund Management team in 1998 and worked on a number of pension fund and charity accounts, including The Wellcome Trust and Guy's and St Thomas' Charitable Foundation.

Harry became RICS qualified in 1999 and has over 25 years experience in property investment and fund management. Harry completed the Investment Management Certificate (IMC) exams in 2003.



**Jim Garland**  
Portfolio Manager

Jim Garland joined the Savills Investment Management investment team in 2009 where he worked as an analyst in research and strategy contributing to the creation of house views, fund reporting and ad hoc research assignments. Jim moved across to the Charities Property Fund team in 2014. As a Portfolio Manager, Jim supports the Fund Manager and Fund Director with asset management initiatives, acquisitions and disposals.

Prior to joining Savills Investment Management Jim worked at a healthcare strategy and marketing consultancy.

Jim graduated from UCL in 1999 with a degree in Biotechnology and gained an MSc in Real Estate at Cass Business School in 2009. Jim is RICS qualified and has completed the Investment Management Certificate (IMC) exams.



**Angy Benitz**  
Fund Manager

Angy Benitz is the Fund Manager for the Charities Property Fund. Angy's primary role involves asset acquisition and disposal together with adopting portfolio management initiatives. Angy is also a member of Savills Investment Management's Investment Risk Committee.

Angy joined Savills Investment Management in September 2010 from DTZ where he spent 8 years in a variety of advisory roles, with an emphasis on investment agency representing a range of clients on acquisition and disposal transactions of commercial real estate within the UK.

Angy graduated from Oxford University in 2001 before joining DTZ and becoming RICS qualified in 2005.



**Maggie McQuaid**  
Portfolio Manager

Maggie McQuaid is Portfolio Manager for the Charities Property Fund. Her day to day role involves asset acquisitions and disposals together with the execution of asset management initiatives.

Maggie graduated from the University of Ulster in 2011 with a degree in Property Investment & Development. She subsequently worked for MSCI prior to joining the Savills Graduate Scheme in 2013. She spent time in hotel valuations, retail investment, property management, commercial valuations and Savills Investment Management prior to becoming RICS qualified in 2015. Following qualification she worked in a hotel valuation advisory role at Savills prior to joining Savills Investment Management in 2017. She has also completed the Investment Management Certificate (IMC) exam.

# Charities Property Fund Team

Clients include pension funds, insurance companies, endowments, charities and family offices on whose behalf we invest in office, retail, industrial, residential and alternative sectors in property. Savills Investment Management is wholly owned by the Savills Group, a FTSE 250 company and international real estate consultancy. Savills Investment Management retains operational independence from the wider Savills Group to enable us to act on a best execution basis on behalf of our clients.



**Joe Rosenblatt**  
Asset Manager

Joe Rosenblatt is an Asset Manager for the Charities Property Fund. His day to day role includes assisting with asset management initiatives, acquisitions and disposals. Joe graduated from the University of Leeds with a degree in Economics and Philosophy in 2017, before undertaking an MSc in Real Estate from UCEM. Joe completed the APC qualification in May 2021 having previously worked within Valuation, Leasing, Property Management and Investment during his time on the Savills graduate scheme.

## Finance



**Esme Dowling**  
Fund Finance Manager

Esme Dowling is a Fund Finance Manager, responsible for financial reporting and analysis, and management of administrators. Esme joined Savills IM in October 2020 and previously worked at Blackrock, AXA IM, CBRE Global Investors and ING Real Estate, managing the fund finance function for a number of UK and European property funds. Esme is a graduate of Glasgow University and started her career at Deloitte LLP in London, where she trained to become a Chartered Accountant (FCA) with the Institute of Chartered Accountants in England and Wales.



**Kathryn Angliss**  
Fund Finance Manager

Kathryn Angliss is a Fund Finance Manager, responsible for financial reporting and analysis, and administrator management.

Kathryn joined Savills Investment Management in May 2019 from Sanne Group where she worked within the Fund Administration team on various debt funds. Prior to this she worked within the Audit and Tax departments at KPMG Channel Islands, where she qualified as a Chartered Accountant with the Institute of Chartered Accountants in England and Wales.

Kathryn graduated from the University of Warwick in 2013 before starting at KPMG.

## Investor Relations



**Lucy MacEwan**  
CPF Marketing Manager

Lucy joined Savills Investment Management in 2017. She is responsible for the marketing of CPF and investor relations with both existing and potential investors. Her day to day role involves investor communications, fund dealing, reporting and event management. She is also responsible for the Fund website and marketing documents.

Lucy graduated from University of Exeter in 2016 with a BA degree in Anthropology.



**Michael Floyd**  
Associate Fund Finance Manager

Michael Floyd is an Associate Fund Finance Manager, responsible for financial reporting and analysis, and management of administrators. Michael joined Savills Investment Management in July 2021 from Mazars LLP where he worked in the Asset Management team and qualified as a Chartered Accountant with the Institute of Chartered Accountants in England and Wales.

Michael graduated from Loughborough University in 2018 with a BSc in Mathematics.



**Callum Wrench**  
Associate Fund Finance Manager

Callum Wrench is an Associate Fund Finance Manager, responsible for financial reporting and analysis, and management of administrators.

Callum joined Savills Investment Management in November 2021. Prior to this he worked at PwC CI where he worked in audit, mostly on private equity clients, and where he qualified as a Chartered Accountant with the Institute of Chartered Accountants in England and Wales.

Callum graduated from Exeter University in 2012 with a BA in Economics.



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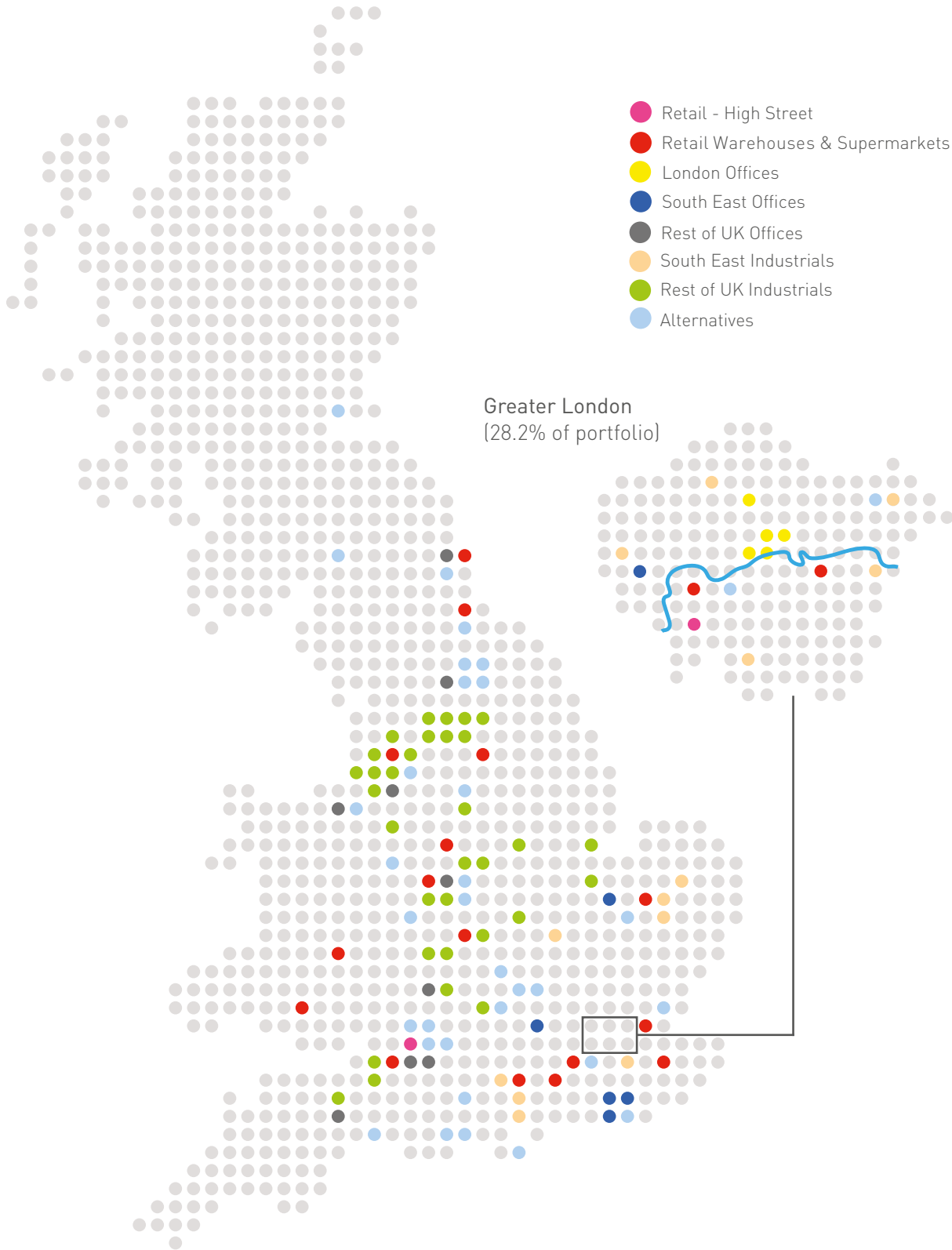
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# Map of Properties



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## Retail - High Street

Property	Principal Tenants	Annual Rent As at 24 June 2022 £	Lease Expiry (Break)
1 Bath	Mr Simms Ye Olde Sweet Shop	65,000	2032 (2027)
2 Walton-on-Thames	Heals (1810)	50,000	2023 (2022)
Total, High Street		115,000	

## Retail Warehouses & Supermarkets

Property	Principal Tenants	Annual Rent As at 24 June 2022 £	Lease Expiry (Break)
3 Basildon	McDonald's, KFC, Pets at Home, Farmfoods, Poundland	698,910	2024 - 2041
4 Basingstoke	Homebase	1,113,000	2031
5 Bristol	Pets at Home, McDonald's	378,320	2027
6 Bury	Halfords, KFC, Home Bargains, Farmfoods, Empire Sports Nutrition	489,690	2026 - 2041 (2027 - 2036)
7 Bury St Edmunds	Matalan	305,000	2029
8 Canterbury	Dunelm, Dreams	508,745	2026 - 2031 (2026)
9 Doncaster	Wickes	296,327	2028
10 Gateshead	Tesco	2,262,843	2048 (2033)
11 Guildford	Magnet	600,000	2024
12 Hereford	Lidl, Pets at Home, Poundstretcher	405,005	2023 - 2046 (2036)
13 London SE7 (Greenwich)	Aldi, Next, Primark, Wren Kitchens	2,191,625	2030 - 2037 (2032)
14 Merthyr Tydfil	Halfords, Home Bargains, Sports Direct, Dreams, Iceland, Private Individuals, Greggs	635,531	2021 - 2029 (2024)
15 Middlesbrough	B&M	239,180	2023
16 Redditch	Aldi, Pets at Home, Poundstretcher, Iceland, Home Bargains, Costa Coffee, Sue Ryder, Burger King	1,027,528	2020 - 2029 (2024 - 2036)
17 Redhill	Majestic Wine	42,500	2025 (2023)
18 Twickenham	Currys, Wickes	951,500	2024 - 2032
19 Uttoxeter	B&Q, Shoe Zone, Poundland, Pets at Home, Argos, B&M, KFC, Majestic Wine, Scentarea, PR Bason & J Gathercole	816,493	2022 - 2028 (2023 - 2024)
20 West Malling	Waitrose	209,247	2026
21 Wolverhampton	JD Sports Gyms, Iceland Foods	475,000	2028 - 2032 (2027)
Total, Retail Warehouses		13,646,444	



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## London Offices

Property	Principal Tenants	Annual Rent As at 24 June 2022 £	Lease Expiry (Break)
22 London E1 (Whitechapel)	The British Diabetic Association	1,126,173	2026
23 London EC1 (Farringdon)	Macmillan Publishers International	2,360,641	2034 (2029)
24 London EC2 (Shoreditch)	Work Life	923,527	2031
25 London N1 (Shoreditch)	Lee Wrangler UK, Sunshine Partners, Spiers & Major, UK Broadband, Sharp End Partnership	631,300	2023 - 2027 (2023)
26 London NW5 (Kentish Town)	Vacant	-	-
Total, London Offices		5,041,641	

## South East Offices

Property	Principal Tenants	Annual Rent As at 24 June 2022 £	Lease Expiry (Break)
27 Brighton (Aspect House)	NHS, Bullhorn International, Football 1X2, Page Group Plc, Jarltech Europe GMBH, Teladoc Health-UK	633,628	2026 - 2032 (2023 - 2029)
28 Brighton (International House)	Fitness First, Booker, The Student Room Group, Octopus, Hays, Haybury	897,331	2023 - 2028 (2023 - 2024)
29 Brighton (Queens Road)	E-Techzone, NEB Ventures, WRAP Business & Leisure	262,796	2025 - 2031 (2026)
30 Huntingdon	Cambridgeshire & Peterborough NHS Foundation	111,510	2022
31 Maidenhead	Vacant	-	-
32 Staines	Givaudan UK	127,000	2028 (2023)
Total, South East Offices		2,032,265	



Hereford



Cheltenham

# List of Properties Continued

## Rest of UK Offices

Property	Principal Tenants	Annual Rent As at 24 June 2022 £	Lease Expiry (Break)
33 Altrincham	Bolling Investments	368,567	2033 (2028)
34 Bath	Bath Best Food, Starbucks, Gradwell Comms, Ladbrokes, EIP Europe, Abel & Imray	579,091	2023 - 2032 (2025 - 2026)
35 Birmingham	Secretary of State for Levelling Up, Housing and Communities	891,672	2032 (2027)
36 Bristol	Films at 59	387,550	2026
37 Cheltenham	Abercrombie & Kent, Giant Finance	454,206	2024-2029 (2022 - 2024)
38 Chester	The Secretary of State for Communities and Local Government	437,615	2026
39 Ilkley	Smartsearch, Modus UK, Smartcredit	453,775	2028 - 2033
40 Newcastle-upon-Tyne	Ryder Architecture	310,245	2033
41 Taunton	Vacant	-	-
Total, Rest of UK Offices		3,882,721	

## South East Industrials

Property	Principal Tenants	Annual Rent As at 24 June 2022 £	Lease Expiry (Break)
42 Basingstoke	Leverton Clarke	452,336	2033
43 Basingstoke	Vodafone, Berry Bros & Rudd	538,504	2025 - 2027
44 Belvedere	Allied Hygiene Systems	600,000	2043 (2033)
45 Bury St Edmunds	Vitec Videocom	587,400	2032
46 Bury St Edmunds	Unipart Logistics	878,435	2044 (2034)
47 Chigwell	Sytner	435,000	2056 (2036)
48 Epsom	Eurocell Building Plastics, Euro Car Parts, Heating & Plumbing Supplies, Screwfix Direct, Betterstone Self Storage Properties, AWE Europe, Photo-me International	772,782	2023 - 2033 (2024 - 2026)
49 Hayes	Tempur UK	674,638	2026
50 London NW9	VW Group	245,000	2031
51 Milton Keynes	F+F Stores	699,250	2027
52 Portsmouth	SMR Automotive Mirrors UK	600,000	2034 (2029)
53 Thetford	Fedex	99,999	2025 (2023)
54 Tonbridge	NW Autocentres, Kentec Tool Hire, Kentec Training, The Tyre Store	132,050	2022 - 2027
Total, South East Industrials		6,715,394	



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Rest of UK industrials

Property	Principal Tenants	Annual Rent As at 24 June 2022 £	Lease Expiry (Break)
55 Birmingham	Carpet & Flooring (Trading)	310,005	2025
56 Boston	Dhammatek, Renal Services, VC Logistics & Transport, BA Bush (Tyres), Touch Global, Cargo Gallery Logistics, George H Kime & Co	645,292	2022 - 2045 (2025 - 2027)
57 Bristol	Kuehne + Nagel	515,000	2030 (2024)
58 Bristol	Cubico UK, Screwfix, Taste Tech, Qualitronics, Mon Motors	433,241	2024 - 2030 (2025)
59 Burton upon Trent	Waterstones	950,000	2023
60 Daventry	G2S, Cummins, Consumer Champion Group	887,995	2023 - 2030 (2023 - 2026)
61 Gloucester	Severn Glocon	536,700	2028
62 Huddersfield	Hocoparts UK, Automint	406,731	2031 (2026)
63 Leeds	Yusen Logistics UK	420,000	2031 (2026)
64 Liverpool	Amazon UK	632,206	2026
65 Liverpool	Kammac	786,500	2023
66 Manchester	Royal Mail, Wilkinson Star	318,250	2027 - 2028
67 Normanton	Kelling Group	315,000	2032
68 Normanton	United Autosports	215,107	2024
69 Normanton	Kongsberg Actuation Systems	413,704	2038 (2028)
70 Normanton	PNS UK	236,665	2036
71 Normanton	Really Useful Products	352,750	2027
72 Nottingham	Turbine Surface Technologies	433,843	2026
73 Peterborough	Sage Publications	219,480	2022
74 Redditch	Amazon UK Services	754,164	2026 (2024)
75 Rochdale	Royal Mail	166,234	2028
76 South Normanton	Recticel	310,000	2031
77 Swindon	Jewson	172,500	2023
78 Tamworth	Speedy Hire	969,878	2029
79 Taunton	Rotec Hydraulics, Marshalsea Engineering	142,647	2026 - 2029 (2024)
80 Telford	Northwood Hygiene Products	730,000	2025
81 Tewkesbury	Tata Steel	879,417	2023
82 Tewkesbury	Idemia UK	270,000	2030 (2025)
83 Wakefield	Saint-Gobain Building Distribution	271,225	2031
84 Warrington	Eddie Stobart	350,000	2033
85 Wednesbury	AF Blakemore & Son	371,500	2024
Total, Rest of UK Industrials		14,416,034	

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Alternatives

Property	Principal Tenants	Annual Rent As at 24 June 2022 £	Lease Expiry (Break)
Leisure			
86 Bath (1-3 Westgate Buildings)	Stable Bar & Restaurant, DPL Partnership	186,664	2039 (2029)
87 Carlisle	Sports Direct	160,000	2030
88 Harrogate	Five Guys, Mitchells & Butlers, Marston's, Bar Hidden, Palagander	400,982	2030 - 2041 (2023 - 2031)
89 Rayleigh	Virgin Active	464,000	2033
90 Sheffield	JD Wetherspoon, ASK, Stonegate, Caffè Nero, Meaty Fish, Yorkshire Metropolitan Housing Association	379,125	2023 - 2044
Total, Leisure		1,590,771	
Hotels / Student / Serviced Apartments / Supported Housing / Education			
91 Bath (5-10 Westgate Buildings)	Travelodge, Sports Direct, Sally Salon, Hask45, Creams Café	771,200	2027 - 2042 (2024 - 2025)
92 Bath	Westgate Apartments	211,003	2027
93 Bath	TS Apartments	153,793	2029
94 Brighton	Jurys Inn	1,757,756	2042
95 Cambridge	Travelodge	1,225,086	2048
96 Dorchester	AFL to Inclusion Housing Community Interest Company	-	-
97 London, SW11	Travelodge	1,657,738	2049
98 Manchester	Edyn, Private Individuals, CDP	717,347	2022 - 2046 (2025)
99 Newcastle-upon-Tyne	easyHotel UK, Big Mussell	473,500	2028 - 2042 (2037)
100 Oxford	D'Overbroeck's	466,814	2047
101 Oxford	D'Overbroeck's	1,581,901	2047
102 Poole	NHS, Trek, Subway, Costa Coffee, Anytime Fitness, Travelodge	837,628	2031 - 2051 (2026)
103 Shanklin	Vectis Housing Association	89,627	2041
Total, Hotels / Student / Serviced Apartments / Supported Housing / Education		9,943,393	



Gateshead



Liverpool



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## Alternatives

Property	Principal Tenants	Annual Rent As at 24 June 2022 £	Lease Expiry (Break)
<b>Car Showrooms</b>			
104 Birmingham	VW Group - SEAT	153,872	2027
105 Camberley	VW Group - Audi	333,765	2026
106 Chester	Rybrook - Volvo	240,191	2036
107 Chigwell	Sytner - BMW & Mini	788,425	2056 (2026)
108 Harrogate	VW Group - Volkswagen	340,000	2027
109 Harrogate	JCT600 - Mercedes Benz, BP, M&S	482,068	2035 - 2036
110 Harrogate	Sytner - Audi	610,046	2035
111 Poole	Sandown Motors - Mercedes Benz	395,000	2030
112 Solihull	Rybrook - McLaren & Rolls Royce	314,949	2036
113 Stockton-on-Tees	VW Group - Audi	350,383	2027
114 Swindon	Sytner - Mercedes Benz	455,000	2039
115 Worcester	Rybrook - BMW & Mini	618,446	2036
Total, Car Showrooms		5,082,145	
<b>Roadside</b>			
116 Glenrothes	BP, M&S	264,314	2034
117 Stow on the Wold	BP, M&S	209,311	2033
118 Telford	Welcome Break - Shell, Waitrose, WH Smith, Burger King, Starbucks, Krispy Kreme, Days Inn	1,013,810	2027
Total, Roadside		1,487,435	
Total, Alternatives		18,103,744	
Total, portfolio		63,953,243	



Oxford



Cambridge

# Portfolio Statement

At 24 June 2022

Portfolio of Investments	
<b>Properties valued at greater than £15m</b>	
The Smithson, Briset Street, London EC51	Rivington House, London EC2A
Brocklebank Retail Park, Greenwich SE7	Fifth Avenue, Burton Upon Trent
Jury's Inn Hotel, Brighton	5 Centurion Way, Belvedere
Metro Park West, Gateshead	Drayton Fields, Daventry
200 York Road, Battersea, SW11	Ravensbank Business Park, Redditch
Travelodge Hotel, Newmarket Road, Cambridge	Toyota Tsusho unit, Hornhouse Lane, Knowsley, Liverpool
Suffolk Park, Bury St Edmunds	Moreton Hall Industrial Estate, Bury St Edmunds
Emperor Point, Centurion Park, Tamworth	Welcome Break, MSA, Junction 4, M54, Telford
Epsom Trade Park and Units 450A & 450B, Epsom	Units 3010 & 3020 Birmingham Business Park, Birmingham
Caxton Point, Printing House Lane, Hayes	Dovetails Retail Park, Uttoxeter Bypass, Uttoxeter
Apex Retail Park, Hampton Road West, Twickenham	SACO House, Minshull Street, Manchester
Backchurch Lane, London EC2	Lifeboat Quay, West Quay Road, Poole
Homebase, Winchester Road, Basingstoke	333 Banbury Road, Oxford
Valuation £m (percentage of total net assets)	£712.100 (49.06%)
<b>Properties valued at between £10m to £15m</b>	
The Crystal Building, Langston Road, Chigwell	Unit 5300, Severn Drive, Tewkesbury
Amazon unit, Hornhouse Lane, Knowsley, Liverpool	5-10 Westgate Buildings, Bath
Sytner BMW, Langston Road, Chigwell	Dawson Road, Mount Farm Industrial Estate, Milton Keynes
Units 1 & 2 Gemini, Hamilton Close, Houndmills, Basingstoke	11 Poplar Way, Bristol
SMR, Castle Trading Estate, Portchester, Portsmouth	SytnerAudi, St James Business Park, Knaresborough
Knights Park, Houndmills, Basingstoke	BMW & Mini, Knightsbridge Park, Worcester
International House, Queens Road, Brighton	Imperial Works, Kentish Town, London NW5
Trafford Retail Park, Redditch	Wilverley Trading Estate, Bath Road, Brislington, Bristol
8 Shepherdess Walk, London N1	Aspect House, Queens Road, Brighton
376 Banbury Road, Oxford	Kelling Unit, Trident Park, Normanton
Severn Glocon, Olympus Park, Quedgeley, Gloucester	Magnet, Ladymead, Guildford
Old Market Retail Park, Pitsea, Basildon	Appleton Thorn Trading Estate, Warrington
Valuation £m (percentage of total net assets)	£307.650 (21.19%)



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# Portfolio Statement Continued

At 24 June 2022

Portfolio of Investments		
Properties valued at between £5m to £10m		
Little Oak Drive, Sherwood Park, Nottingham	Moorgate Retail Park, Bury	
Cross Green Approach, Leeds	Chester Civil Justice Centre, Trident House, Chester	
Mercedes Benz & BP, M&S, Leeds Road, Harrogate	St George's House, Ambrose Street, Cheltenham	
Pentrebach Retail Park, Merthyr Tydfil	Mercedes, Holes Bay Road, Poole	
Kongsberg Unit, Foxbridge Way, Normanton	Kenmore Road, Wakefield	
Westpoint, James Street West, Bath	Audi, Brooklime Avenue, Stockon-on-Tees	
AF Blakemore unit, Steelmans Road, Wednesbury	Mayfield Business Park, Ilkley	
Mercedes, Drake's Way, Swindon	Volkswagen, St James Business Park, Knaresborough	
Proctor House, Newcastle	United Autosports Unit, Trident Park, Normanton	
Clover Nook Industrial Estate, South Normanton	Whiteladies House, Clifton, Bristol	
Units 1 & 2, Bradley Junction, Station Road, Huddersfield	Pets at Home & Mcdonalds, Bath Road, Brislington, Bristol	
Units A & B, Wardley Cross Industrial Estate, Manchester	McLaren & Rolls Royce, Stratford Road, Solihull	
Wincheap Retail Park, Canterbury	One Bell Street, Maidenhead	
Really Useful Products, Unit 2 Foxbridge Way, Normanton	PNS Unit, Trident Park, Normanton	
200 Rayleigh Road, Thundersley, Rayleigh	Lookers House, Etchells Road, Altrincham	
Units 1-3 Phoenix Retail Park, Wolverhampton	Matalan, Easlea Road, Bury St Edmunds	
Brook Retail Park, Commercial Road, Hereford	Citygate Van Centre, Capitol Way, Colindale	
The Laconite Building, Stafford Park 6, Telford	Wickes, Leger Way, Doncaster	
Emerald Point, Woodgate Valley, Birmingham	17-23 Parliament Street, Harrogate	
Havenside, Boston	Alexandra Way, Ashchurch Business Centre, Tewkesbury	
Valuation £m (percentage of total net assets)	£286.230 (19.72%)	
Properties valued at between £2.5m to £5m		
Barkers Pool, Cambridge Street, Sheffield	Audi, London Road, Camberley	
Unit 18, Fengate East, Peterborough	1-3 Westgate Buildings, Bath	
Jaguar & Volvo, Sealand Road, Chester	Riverdale Industrial Estate, Tonbridge	
Bankhead Park Service Station, Bankhead Park, Woodside Way, Glenrothes	B&M Bargains, Parkway Centre, Middlesbrough	
BP & M&S, Station Road Garage, Stow on the Wold	Jewson Unit, Kembrey Park, Swindon	
Cooper's Studios, 14-18 Westgate Road, Newcastle-Upon-Tyne	Little Waitrose, Fortune Way, West Malling	
Royal Mail Hub, Ainsworth Street, Rochdale	Priorswood Industrial Estate, Taunton	
4 Westgate Buildings, Bath	9-10 Trim Street, Bath	
82-83 Queens Road, Brighton		
Valuation £m (percentage of total net assets)	£64.650 (4.45%)	
Properties valued at between £0m to £2.5m		
4 Prince of Wales Road, Dorchester	Sedgemoor House, Deane Gate Office Park, Taunton	
SEAT, Watson Road, Birmingham	Hepworth Way, Walton-on-Thames	
TNT Unit, Fisons Way Industrial Estate, Thetford	4 Union Street, Bath	
Vectis Housing, Isle of Wight, Shanklin	Brighton Road, Redhill	
DW Sports, Currock Road, Carlisle	Redshank House, Huntington	
Magna House, 78-80 Church Street, Staines		
Valuation £m (percentage of total net assets)	£16.370 (1.13%)	
Total value of property holdings	£1,387.000 (95.55%)	
	Valuation £000	Percentage of total net assets
Portfolio of investments	£1,387,000	95.55%
Other net assets	£64,540	4.45%
Net assets	£1,451,540	100.00%



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# Financial Information

## Expense Ratios

	Total Expense Ratio	Property Expense Ratio	Transaction Cost Ratio
24 June 2022	0.56%	0.23%	0.16%
24 June 2021	0.62%	0.31%	0.11%

The total expense ratio (TER) of the Fund is the ratio of the Fund’s total operating costs to its average net assets for the 12 months prior to the balance sheet date. Operating costs are specifically those costs associated with operating the Fund itself (excluding financing costs) and do not include additional costs associated with the day to day ownership of the assets. The property expense ratio (PER) is the ratio of costs associated with the assets which are not recoverable from tenants to its average net assets for the 12 months prior to the balance sheet date. The transaction cost ratio (TCR) of the Fund is the ratio of all professional fees and other costs associated with the purchase and sale of property to the Fund’s average net assets for the 12 months prior to the balance sheet date.

The TER and PER have decreased compared to prior year as the Fund’s average net assets for the 12 months prior to the balance sheet date have increased compared to prior year and the property costs have decreased predominantly due to a decrease in legal and professional fees.

## Portfolio Turnover Rate

	Portfolio Turnover Rate
24 June 2022	2.08%
24 June 2021	9.36%

The portfolio turnover rate gives an indication of how frequently the assets are purchased and sold by the Fund. It is calculated by dividing the total disposal value over the Fund’s average net assets for the 12 months prior to the balance sheet date. The current year rate is lower than the prior year due to a decrease in the disposal value for the 12 months to 24 June 2022 and an increase in average net assets for the same period.

## Distribution Yield

	Distribution Yield
24 June 2022	3.5%
24 June 2021	4.0%

The distribution yield represents the total distribution per unit over the period as a percentage of the net asset value per unit as at the end of the year.

# Financial Information Continued

## Annualised Performance

	1 Year*	3 Years**	5 Years***
24 June 2022	24.1%	10.3%	9.1%
24 June 2021	7.1%	3.4%	5.5%

\* total return for twelve months to 24 June 2022  
\*\* total return annualised over a three year period  
\*\*\* total return annualised over a five year period

Source: AREF/MSCI All Balanced Property Funds Index  
Basis: Capital NAV-to-NAV with gross income reinvested

## Change in Net Assets Per Unit

	24 June 2022 (p)	24 June 2021 (p)	24 June 2020 (p)
Opening net asset value per unit	124.92	121.44	128.19
Return before operating charges*	30.05	10.00	(0.65)
Operating charges	(0.91)	(1.38)	(1.10)
Return after operating charges*	29.14	8.62	(1.75)
Distributions	(5.12)	(5.14)	(5.00)
Closing net asset value per unit	148.94	124.92	121.44
* after direct transaction costs of:	0.21	0.14	0.10

The above table is calculated using the average number of units in issue during the year to June.



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# Investor Analysis

Holding	Number of beneficial owners	Total percentage holding %
Less than 0.01%	786	3.12
0.01% but less than 0.05%	506	11.70
0.05% but less than 0.10%	114	7.66
0.10% but less than 0.50%	97	21.63
0.50% but less than 1.00%	23	17.96
1.00% but less than 2.00%	12	16.60
2.00% but less than 4.00%	6	17.21
Greater than 4.00%	1	4.12
Total number of investors	1,545	
Total number of units in issue at the end of the year at 24 June 2022	974,554,147	
Percentage held by the largest investor		4.12

Holding	Total percentage holding %
Top 10 largest investors	26.69
Top 25 largest investors	43.66
Top 50 largest investors	59.46
Top 100 largest investors	72.57

# Fund History and Distribution

## Fund History

Net Asset Value/Fund Size	Date	Net Asset Value (£)	Units in Issue	Net Asset Value Per Unit (p)
	24 June 2018	1,276,434,072	999,225,948	127.74
	24 June 2019	1,307,115,917	1,019,690,691	128.19
	24 June 2020	1,196,247,120	985,020,241	121.44
	24 June 2021	1,162,871,097	930,874,828	124.92
	24 June 2022	1,451,539,886	974,554,147	148.94

Price and Income History	Year Ended	Highest Buying Price (p)	Lowest Selling Price (p)	Net Income Per Unit (p)
	24 June 2018	130.54	121.48	5.46
	24 June 2019	131.83	127.42	5.34
	24 June 2020	130.77	121.06	4.95
	24 June 2021	128.32	119.94	5.07
	24 June 2022	152.10	128.42	5.19

## Distribution

		2022		2021	
Distribution Number	Distribution Period	Distribution Per Unit (p)	Date Paid	Distribution Per Unit (p)	Date Paid
1	25 June to 24 September	1.27	15/11/21	1.12	13/11/20
2	25 September to 24 December	1.24	15/02/22	1.39	15/02/21
3	25 December to 24 March	1.44	13/05/22	1.39	14/05/21
4	25 March to 24 June	1.24	15/08/22	1.17	13/08/21
Total		5.19		5.07	

The Fund distributes all available income for each quarter and therefore does not need to apply an equalisation policy.



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## Statement of Charity Trustees’ Responsibilities in Respect of the Trustees’ Annual Report and the Financial Statements

As set out on page four the Charity Trustees under the Charities Act are the Manager and the Corporate Trustee.

Under charity law, the Charity Trustees are responsible for preparing a Trustees’ Annual Report and the financial statements in accordance with applicable law and regulations. The Charity Trustees are required to prepare the financial statements in accordance with UK Accounting Standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

The financial statements are required by law to give a true and fair view of the state of affairs of the Fund and of net revenue and the net capital gains on the property of the Fund for that period.

In preparing these financial statements, generally accepted accounting practice entails that the Charity Trustees:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards and the Statement of Recommended Practice have been followed, subject to any material departures disclosed and explained in the financial statements;
- state whether the financial statements comply with the Scheme of Particulars, subject to any material departures disclosed and explained in the financial statements;
- assess the Fund’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards and the Statement of Recommended Practice have been followed, subject to any material departures disclosed and explained in the financial statements;
- state whether the financial statements comply with the Scheme of Particulars, subject to any material departures disclosed and explained in the financial statements;
- assess the Fund’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

The Charity Trustees are required to act in accordance with the Scheme and Scheme of Particulars of the Fund, within the framework of trust law. They are responsible for keeping accounting records which are sufficient to show and explain the Fund’s transactions and disclose at any time, with reasonable accuracy, the financial position of the Fund at that time, and to enable the Charity Trustees to ensure that, where any statements of accounts are prepared by them under section 132(1) of the Charities Act 2011, those statements of accounts comply with the requirements of regulations under that provision. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Fund and to prevent and detect fraud and other irregularities.

The Charity Trustees are responsible for the maintenance and integrity of the financial and other information included on the Fund’s website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Statement of Charity Trustees’ Responsibilities in Respect of the Trustees’ Annual Report and the Financial Statements Continued

### Statement of the Manager’s Responsibilities

In addition to its responsibilities as a Charity Trustee set out above, under the Scheme of Particulars of the Fund the Manager is responsible for:

- preparing financial statements which comply with the disclosure requirements of the Statement of Recommended Practice for UK Authorised Funds issued by the Investment Management Association in May 2014; and
- keeping proper accounting records which enable it to demonstrate that the financial statements as prepared comply with the above requirements.

### Statement of the Corporate Trustee’s Responsibilities

In addition to its responsibilities as a Charity Trustee set out above, under the Scheme and Scheme of Particulars of the Fund the Corporate Trustee is responsible for:

- the safekeeping of all property of the Fund which is entrusted to it and ensuring proper registration of tangible moveable property, and for the collection of income arising from all such scheme property.
- to ensure that the Fund is managed and operated in accordance with the Financial Conduct Authority’s Collective Investment Schemes Sourcebook (“the Sourcebook”), the Financial Services and Markets Act 2000, as amended, and the Scheme of Particulars, concerning: the pricing of and dealing into the Fund; the application of income of the Scheme; and the Fund investment portfolio and borrowing activities.

Citibank UK Limited  
London  
19 October 2022



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# Independent Auditor’s Report

## Independent Auditor’s Report to the Unitholders of the Charities Property Fund (‘the Fund’)

### Opinion

We have audited the financial statements of the Charities Property Fund (‘the Fund’) for the year ended 24 June 2022 which comprise the Statement of Total Return and Change in Net Assets Attributable to Unitholders, the Balance Sheet, the Cash Flow Statement, and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view, in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*, of the financial position of the Fund as at 24 June 2022 and of the net revenue and the net capital gains on the property of the Fund for the year then ended; and
- have been properly prepared in accordance with the Scheme and Scheme of Particulars of the Fund;
- have been prepared in accordance with the requirements of the Charities Act 2011.

### Basis for Opinion

We have been appointed as auditor under section 144 of the Charities Act 2011 (or its predecessors) and report in accordance with regulations made under section 154 of that Act.

We conducted our audit in accordance with International Standards on Auditing (UK) (‘ISAs (UK)’), and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Fund in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

### Going Concern

The Charity Trustees have prepared the financial statements on the going concern basis as they do not intend to liquidate the Fund or to cease its operations, and as they have concluded that the Fund’s financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements (‘the going concern period’).

In our evaluation of the Charity Trustees’ conclusions, we considered the inherent risks to the Fund’s business model and analysed how those risks might affect the Fund’s financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the Charity Trustees’ use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the Charity Trustees’ assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Fund’s ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Fund will continue in operation.

## Fraud and Breaches of Laws and Regulations – Ability to Detect

### Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud (‘fraud risks’) we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of the Manager as to the Fund’s high-level policies and procedures to prevent and detect fraud, as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading management meeting minutes.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements such as investment property valuation. On this audit we do not believe there is a fraud risk related to revenue recognition because the Fund’s income primarily arises from operating lease contracts with fixed, or highly predictable, periodic payments.

We did not identify any additional fraud risks.

In determining the audit procedures, we took into account the results of our evaluation and testing of the operating effectiveness of the Fund-wide fraud risk management controls.

We also performed procedures including:

- Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included unusual postings to cash and material post-closing journals.
- Assessing whether the judgements made in making accounting estimates are indicative of a potential bias.

### Identifying and responding to risks of material misstatement related to compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the manager

(as required by auditing standards) and discussed with the manager the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Fund is subject to laws and regulations that directly affect the financial statements including related charities legislation and taxation legislation, and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Fund is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: landlord and tenant regulations, property laws, and building legislation, recognising the nature of the Fund’s activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the manager and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

### Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

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# Independent Auditor’s Report Continued

### Other Information

The Charity Trustees are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge.

We are required to report to you if:

- based solely on that work, we have identified material misstatements in the other information; or
- in our opinion, the information given in the Manager and Trustee’s Report is inconsistent in any material respect to the financial statements.

We have nothing to report in these respects.

### Matters on Which We are Required to Report by Exception

Under the Charities Act 2011, we are required to report to you if, in our opinion:

- the Fund has not kept sufficient accounting records; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

### Charity Trustees’ Responsibilities

As explained more fully in their statement set out on page 58 the Charity Trustees are responsible for: the preparation of financial statements, which are intended by them to give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Fund’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

### Auditor’s Responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor’s report. Reasonable assurance is a high level of assurance but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC’s website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

### The Purpose of Our Audit Work and to Whom We Owe Our Responsibilities

This report is made solely to the Fund’s unitholders, as a body, in accordance with section 144 of the Charities Act 2011 (or its predecessors) and regulations made under section 154 of that Act. Our audit work has been undertaken so that we might state to the Fund’s unitholders those matters we are required to state to them in an auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Fund and the Fund’s unitholders as a body, for our audit work, for this report, or for the opinions we have formed.

Richard De La Rue  
for and on behalf of KPMG LLP, Statutory Auditor  
Chartered Accountants  
15 Canada Square, London, E14 5GL  
19 October 2022

KPMG LLP is eligible to act as an auditor in terms of section 1212 of the Companies Act 2006.

# Statement of Total Return and Change in Net Assets Attributable to Unitholders

		Year ended 24 June 2022	Year ended 24 June 2021
	Note	£	£
Net capital gains	3	223,159,427	30,869,368
Income	4	58,214,347	60,709,044
Expenses	5	(8,483,643)	(12,617,732)
Net income before finance costs		49,730,704	48,091,312
Finance costs – interest and other	6	(697,598)	(542,301)
Net income		49,033,106	47,549,011
<b>Total return before distributions</b>		<b>272,192,533</b>	<b>78,418,379</b>
Finance costs – distributions	7	(48,558,042)	(47,611,113)
<b>Change in net assets attributable to unitholders from investment activities</b>		<b>223,634,491</b>	<b>30,807,266</b>
<b>Statement of change in net assets attributable to unitholders</b>			
Opening net assets attributable to unitholders		1,162,871,097	1,196,247,120
Net amount receivable/(payable) on creation/(redemption) of units		65,034,298	(64,183,289)
Change in net assets attributable to unitholders from investing activities		223,634,491	30,807,266
<b>Closing net assets attributable to unitholders</b>		<b>1,451,539,886</b>	<b>1,162,871,097</b>

The accompanying notes form part of these financial statements.



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# Balance Sheet

	Note	As at 24 June 2022 £	As at 24 June 2021 £
<b>Assets</b>			
<b>Fixed assets</b>			
Investment properties	8	1,387,778,959	1,068,339,033
		<u>1,387,778,959</u>	<u>1,068,339,033</u>
<b>Current assets</b>			
Debtors	9	37,378,432	41,705,814
Cash and bank balances		92,861,347	77,033,453
		<u>130,239,779</u>	<u>118,739,267</u>
<b>Total assets</b>		<b><u>1,518,018,738</u></b>	<b><u>1,187,078,300</u></b>
<b>Less: current liabilities</b>			
Creditors	10	53,848,162	12,847,164
Distribution payable		11,851,811	10,581,091
		<u>65,699,973</u>	<u>23,428,255</u>
<b>Less: non current liabilities</b>			
Finance lease liability	11	778,879	778,948
		<u>778,879</u>	<u>778,948</u>
<b>Total liabilities</b>		<b><u>66,478,852</u></b>	<b><u>24,207,203</u></b>
<b>Net assets attributable to unitholders</b>		<b><u>1,451,539,886</u></b>	<b><u>1,162,871,097</u></b>

The accompanying notes form part of these financial statements.

The financial statements were approved by the Board of Directors of the Manager on 19 October 2022 and were signed on its behalf by

**James Howard**  
Director  
19 October 2022

# Cash Flow Statement

## Cash flow from operating activities

Reconciliation from net operating income to net cash flows from operating activities

Net income before finance costs

Bank interest received

(Decrease)/increase in trade and other receivables

Decrease/(Increase) in trade and other payables

Net cash inflow from operating activities

## Cash flows from investment activities

Purchase of properties and development expenditure

Sale of properties

Bank interest received

Net cash (outflow)/inflow from investment activities

## Cash flows before financing activities

Repayment of obligations under finance leases

Amounts received on creation of units

Amounts paid on redemption of units

Borrowing costs and interest

Distributions paid

Net cash inflow/(outflow) from financing activities

Net increase in cash and cash equivalents for the year

Cash and cash equivalents at the start of the year

**Cash and cash equivalents at the end of the year**

The net amounts received on creation of units do not include movements relating to in-specie transfers which do not impact the cash position of the Fund.

The accompanying notes form part of these financial statements.



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# Notes to the Financial Statements

as at 24 June

## 1 Accounting Policies

### a) Basis of Accounting

These financial statements have been prepared in accordance with Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102"). The presentation currency of these financial statements is sterling.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties, and in accordance with the requirement of the Charities Act 2011 and the Statement of Recommended Practice for Financial Statements of Authorised Funds issued by the IMA in May 2014 (the "SORP"), other than as set out in (d) below.

The Fund is exempt from complying with the Charities Statement of Recommended Practice as per the guidance under paragraph 22.4 of that document.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

### Going Concern

These financial statements have been prepared on a going concern basis which the Manager considers to be appropriate for the following reasons.

The Manager has considered the current economic uncertainties and potential implications on the Fund's future operations. The Fund requires collection of approximately 20% of rent per quarter to cover the property and operation costs for the period. The Manager considers that even in a severe-but-plausible scenario this level of rental income should be exceeded given the diversity of the Fund's property portfolio. At the date of approval of these financial statements 98% of the Q2 2022 rents have been collected. Furthermore, allowances for bad debts that increased as a result of Covid-19 has decreased by 56% due to rent subsequently being collected throughout the period.

Q3 dealing has closed with net redemptions of £33.9 million. This follows a year with net applications of £65 million. In the event of net redemptions, the Fund, in line with the terms of Scheme Particulars, is able to defer redemptions for a period of up to 12 months from the Dealing Date or for a period of 24 months from the Dealing Date where redemption requests represent an aggregate value of 10% or more of the Net Asset Value of the Fund.

In addition, as at 24 June 2022 the Fund holds approximately £87 million in capital cash. The Fund also has a £20 million fixed revolving credit facility which currently remains undrawn and matures in February 2024.

Consequently, the Manager is confident that the Fund will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements.

### b) Investment Properties

The direct property investments, which comprise properties held for rental, are recognised at fair value, being market value as defined in the Appraisal and Valuation Manual prepared by the Royal Institution of Chartered Surveyors, and in accordance with the Scheme Particulars. The interests in property are valued on a quarterly basis and were last valued by Knight Frank on 24 June 2022. The aggregate surplus or deficit on revaluation is taken to the Statement of Total Return.

Costs capitalised in respect of properties under development include acquisition costs of land and buildings, costs incurred in bringing the property to its present location and condition in accordance with FRS 102. Investment properties in the course of development are also held at fair value.

Properties, for which unconditional exchange of contracts occurs during the period, are accounted for as acquisitions or disposals within that period. Conditional exchanges are accounted for as acquisitions or disposals only when all substantive conditions have been met.

Investment properties acquired under finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the net present value of the minimum lease payments. The investment properties acquired under finance leases are subsequently carried at fair value plus an adjustment for the carrying amount of the finance lease obligation (see note 8). The corresponding rental obligations, net of finance charges, are included in the creditors balance (see note 11). The associated finance charges are charged to the Statement of Total Return.

### c) Basic Financial Instruments

#### Debtors and Creditors

Debtors are recognised initially at transaction price. Creditors are recognised initially at transaction price less attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of debtors. These assets/liabilities are discounted where the time value of money is material.

#### Cash at Bank

Cash at bank comprises cash balances. Bank overdrafts that are repayable on demand and form an integral part of the Fund's cash management are included as a component of cash for the purpose only of the cash flow statement. No bank overdrafts were utilised during the year.

### d) Transaction Costs

The Fund aggregates properties in the portfolio statement on pages 51 and 52 in bands greater than 5% and does not disclose transaction costs separately in order to avoid disclosure of sensitive commercial information and does not therefore comply fully with the SORP.

### e) Depreciation

No depreciation is provided in respect of freehold and long leasehold investment properties or in respect of assets in the course of construction.

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# Notes to the Financial Statements Continued

## f) Income and Expenses

Investment income, rental income, service charges and other expenses are recognised on an accruals basis. The periodic charge of the Manager is deducted from income.

Rents received in advance are accounted as prepaid rent within creditors.

Lease rental income is recognised over the lease term on a straight-line basis.

Rental income from fixed and minimum guaranteed rent reviews is recognised on a straight-line basis over the lease term. As this income is not realised, it is not included in the distributions to the investors.

Dividend income is recognised when the Fund's right to receive the payment is established, which is generally when the dividend is declared.

All expenses other than transaction charges relating to the purchase and sale of investments and certain borrowing costs (see point h) are included in 'Expenses' in the Statement of Total Return. Transaction charges are treated as a capital expense and are therefore capitalised.

## g) Lease Incentives

Benefits to lessees in the form of rent free periods, cash incentives and capital contributions are treated as a reduction in the overall return on the leases and, in accordance with FRS 102 are recognised on a straight line basis over the lease term. The total of the unamortised capital contributions and any lease incentives in place at the period end are included within the carrying value of investment properties rather than held as a separate debtor. Any remaining lease incentive balances in respect of properties disposed of are included in the calculation of profit or loss arising on disposal. See also Note 3.

## h) Borrowing Costs

Loan arrangement fees payable and legal costs associated with the establishment of the facility are deemed to be costs which are incurred to give the Fund the opportunity to enter into the credit facility agreement. On this basis they are deemed to be capital in nature and excluded from distribution calculations.

Loan interest expense is recognised on an effective interest rate basis. This interest and the loan non-utilisation fee are deemed to be revenue in nature and are included within the distribution calculations. Further detail of these costs is included in Note 6.

## i) Interest on Development Drawdowns

Interest charged to developers on forward funded developments is capitalised and treated as a deduction to costs of the development.

## j) Distributions Payable and Distribution Policy

Distributions payable are classified as finance costs and are recognised on an accruals basis. Further details of these distributions are included in Note 7.

Distributions are calculated in accordance with the Scheme Particulars.

## k) Taxation

As a charity the Fund is not currently liable to UK tax on gains arising on disposals of investments, nor on income from investments, and is not liable to Stamp Duty Land Tax on purchases of property.

# Notes to the Financial Statements Continued

## 2 Risk Management

In pursuing its investment objective, the Fund holds a number of properties and financial instruments. The properties comprise of direct property holdings. The following are held in accordance with the Fund's investment policy:

- Cash, liquid resources and short-term debtors and creditors that arise directly from its operations;
- Short-term borrowings used to finance investment activity and cash flows associated with the application and redemption process; and;
- Operating leases on freehold and leasehold properties.

The Manager has responsibility for monitoring the portfolio in accordance with the investment objective and seeks to ensure that investments in direct properties and individual securities also meet a risk reward profile that is acceptable.

The typical risks applicable to the Fund are market risks, liquidity risk, credit risk and sector exposure risk.

### Market risks

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Fund's market risks arise from (a) interest rate movements and (b) market price movements.

### a) Interest Rate Risk

The Fund's exposure to interest rate risk mainly arises from any variation in interest income earned on bank balances and interest payable on credit facilities due to volatility in interest rates. The Manager does not consider interest income earned on bank balances to be a significant risk to the Fund as it is not the intention of the Fund to maintain cash balances for the purpose of generating income, but to invest in investment properties when suitable investments become available.

In respect of interest payable on credit facilities, if a credit facility is utilised, the Manager will consider the life of the borrowing and will take appropriate action to mitigate the impact of interest rate fluctuations on a case by case basis.

## b) Market Price Movements

Direct property is independently valued on a quarterly basis. However, such valuations are a matter of the valuer's professional judgement and opinion. Such values may or may not be achieved on a sale of a property.

To mitigate against market price movements, the Manager of the Fund performs a number of controls, including the following:

Criteria	Risk Control
Rental income	Monitors the proportion of secure or rental income
Term of rental	Verified in advance of an acquisition or lease event (e.g. tenant change) and compared with equivalent fund types or data of the Investment Property Databank (IPD)
Quality of tenants	Verified in advance of an acquisition or lease event (e.g. tenant change) by means of the credit rating from Experian and Dun & Bradstreet and benchmarking against the IPD's Rental Information Services (IRIS)
Diversification of sectors	Monitored and constantly reviewed in advance of each property acquisition or disposal
Geographic diversification	Monitored and constantly reviewed in advance of each property acquisition or disposal

When proposing and considering a disposal, the Property Adviser and Manager will assess each property and consider factors such as current and estimated future prices, Fund liquidity, upcoming redemptions, cash held by the Fund and the portfolio profile before concluding on whether a property should be disposed of and when.



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# Notes to the Financial Statements Continued

## b) Market Price Movements (continued)

### Liquidity Risk

The key liquidity risk is the holding of direct property assets. Property by its nature is an illiquid investment and the Fund's investment properties may not be readily realisable for cash. Sales may take a number of months depending on the nature and location of the asset.

A further liquidity risk of the Fund is the redemption of units. The Manager monitors the level of redemptions, and other cash flows, on a regular basis to ensure sufficient funding is available. If insufficient cash is available to fund redemptions, the Fund can dispose of direct property holdings, utilise short term credit facilities, and defer redemptions.

### Credit Risk

Credit risk is the risk that one party to a financial arrangement will cause a financial loss for the other party by failing to discharge an obligation.

The Fund assesses the credit risk of third parties before entering into business with third parties. Debtor balances are monitored on a regular basis to mitigate the Fund's exposure to bad debts and in addition the ongoing credit strength of third parties is monitored.

### Sector Exposure Risk

The Fund's assets are invested in direct properties. As such the Fund is exposed to sector specific risk as a result of its concentration in the property sector. The underlying risk is the ability to obtain tenants for these properties and tenants being able to fulfil lease commitments.

The Manager mitigates these risks by investing in a diversified portfolio of direct properties in different geographical areas and sectors. In addition, before purchasing a direct property or entering into a new lease, the Manager will examine the covenant strength offered and will aim to let only to tenants with good credit ratings.

### ESG Risk

The Manager is aware of the risks that face the Fund in relation to climate change and other ESG risks. These risks are taken into consideration by the Manager when managing and operating the Fund's assets.

## 3 Net Capital Gains

The net gains on investments during the year comprise:

	Year to 24 June 2022	Year to 24 June 2021
Investment properties	£	£
Net proceeds from disposal of properties	27,054,148	104,726,677
Carrying value of properties disposed during the year	(23,650,000)	(96,100,000)
Movement in accruals on properties disposed in prior year	(1,091)	25,442
Gains realised on properties disposed	3,403,057	8,652,119
Unrealised gains on revaluation for the year	239,552,955	56,070,360
Unrealised losses on revaluation for the year	(19,796,585)	(33,853,111)
Net capital gains on investment properties	223,159,427	30,869,368

Net realised gains on properties disposed comprised £3,754,848 (2021: £9,967,165) of realised gains and £351,791 (2021: £1,315,046) of realised losses.

# Notes to the Financial Statements Continued

## 4 Income

	Year to 24 June 2022	Year to 24 June 2021
	£	£
Rental income	57,469,653	56,840,963
Sundry income	738,836	3,813,863
Bank interest	5,858	54,218
	58,214,347	60,709,044

Sundry income in the current and prior year relates to income received from the surrender of leases.

The future aggregate minimum rentals receivables under non-cancellable operating leases are as follows:

	As at 24 June 2022	Restated as at 24 June 2021
	£	£
Within 1 year	60,036,328	53,610,786
Later than 1 year and no later than 5 years	196,832,085	184,357,283
Later than 5 years	284,714,163	258,492,946
	541,582,576	496,461,015

The prior year figures have been restated due to a change in calculation methodology. FRS 102 states that the operating lease disclosure should present the minimum future lease payments over the lease term. The lease term is considered to be the non-cancellable period for which the lessee has contracted to lease the asset, together with any further terms for which the lessee has the option to continue to lease the asset when at the inception of the lease it is reasonably certain that the lessee will exercise the option. The prior year methodology was to calculate the disclosure over the full contracted length of the lease. It has now been updated in line with FRS 102, calculating up until the next break option.

The effect this change in calculation methodology has had on the prior year figures is as follows:

	As at 24 June 2021	Movement	Restated as at 24 June 2021
	£	£	£
Within 1 year	53,926,470	(315,684)	53,610,786
Later than 1 year and no later than 5 years	196,504,589	(12,147,306)	184,357,283
Later than 5 years	397,859,112	(139,366,166)	258,492,946
	648,290,171	(151,829,156)	496,461,015

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## 5 Expenses

	Year to 24 June 2022	Year to 24 June 2021
	£	£
Manager and Property Management Company fees	6,257,863	5,997,644
Corporate Trustee's fees	202,016	186,038
	6,459,879	6,183,682
Other expenses:		
Impairment of rent receivables	(1,791,852)	2,057,138
Insurance	27,847	288,064
Audit fee	57,075	51,823
Review fee	26,925	18,525
Valuation fee	229,053	187,945
Legal and professional fees	2,043,471	2,179,684
Marketing and communication costs	79,670	101,434
Vacant property and property maintenance costs	1,325,325	1,549,437
Advisory Committee fees	26,250	-
	2,023,764	6,434,050
	8,483,643	12,617,732

Included within vacant property and property maintenance costs are £88,917 of service charge rebates (2021: £89,323).

Impairment of rent receivables is in a net income position due to the writeback of rental provisions that were made in the prior financial year. These have since been received from tenants.

# Notes to the Financial Statements Continued

## 6 Finance Costs – Interest and Other

Finance cost during the year (excluding distributions) comprise:

	Year to 24 June 2022	Year to 24 June 2021
	£	£
<b>Capital expenses</b>		
Credit facility arrangement fee	125,714	93,835
Legal and professional fees	70,797	20,110
Amortisation of capital contribution	311,734	246,520
	508,245	360,465
<b>Revenue expenses</b>		
Non-utilisation fee	143,562	135,000
Finance lease interest	45,791	46,836
	189,353	181,836
	697,598	542,301

On 9 October 2021, the Fund extended its fixed revolving credit facility (the “Facility”) with the Royal Bank of Scotland international (“RBSI”) for a further two years to 20 February 2024. The Facility can continue to be utilised within the parameters outlined below:

- a maximum drawdown of £20,000,000 for the purchase of investment properties
- a maximum drawdown of £10,000,000 for redemptions and distributions

At the year end, the Facility was unutilised and the Fund has not entered into any derivative contracts in respect of interest rates.

Legal costs associated with the establishment of the Facility are deemed to be costs which are incurred in entering into the credit facility agreement. On this basis they are deemed to be capital in nature and excluded from distribution calculations.



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## 7 Finance Costs – Distributions

Distributions during the year comprise:

	Year to 24 June 2022	Year to 24 June 2021
	£	£
First interim distribution	11,779,756	11,014,989
Second interim distribution	11,608,776	13,324,531
Third interim distribution	13,306,090	12,690,501
Fourth interim distribution	11,715,072	10,572,613
Net distribution from income for the year	48,409,694	47,602,634
Capital distribution	148,348	8,479
Total distribution	48,558,042	47,611,113

Details of the distribution per unit are set out in the distribution table on page 57.

Represented by:	Year to 24 June 2022	Year to 24 June 2021
	£	£
Net income	49,033,106	47,549,011
Less: income from rent straight-lining	(1,128,556)	(304,988)
Add back: capital expenses	508,245	360,465
Provision for bank charges	(3,101)	(1,854)
Distributable capital income	148,348	8,479
Net distribution for the year	48,558,042	47,611,113

The capital distribution relates to rental top-ups from a property acquisition.

# Notes to the Financial Statements Continued

## 8 Investment Properties

Split of investment properties by freehold and leasehold:

	Freehold	Leasehold	As at 24 June 2022	As at 24 June 2021
	£	£	£	£
Value at the beginning of the year	946,775,000	120,785,000	1,067,560,000	1,135,305,000
Purchases and capital expenditure during the year	111,870,200	8,433,910	120,304,110	4,400,187
Carrying value of properties disposed during the year	(14,350,000)	(9,300,000)	(23,650,000)	(96,100,000)
Gain on valuation	204,722,610	34,830,345	239,552,955	56,070,360
Loss on valuation	(18,577,899)	(1,218,686)	(19,796,585)	(33,853,111)
Income recognised from rent straight-lining and lease incentives	2,909,695	119,825	3,029,520	1,737,564
Fair value	1,233,349,606	153,650,394	1,387,000,000	1,067,560,000
Finance lease asset	-	778,959	778,959	779,033
Carrying value at the end of the year	1,233,349,606	154,429,353	1,387,778,959	1,068,339,033

Lease incentives and straight-lined rent of £16,774,121 (2021: £15,115,818) are included in the carrying value of the investment properties above.

All the properties have been valued by external chartered surveyors, Knight Frank at £1,387,000,000 (2021: £1,067,560,000), in accordance with the Appraisal and Valuation Manual issued by the Royal Institution of Chartered Surveyors. The historical cost of the properties is £1,000,055,634 (2021: £906,354,660).

The Fund holds a leasehold property with annual ground rent payable of £45,791 (2021: £37,500) (subject to five-yearly rent reviews) (see note 11). As the external valuation values properties on a net income basis an adjustment to the valuation equivalent to the lease liability is required.

### Property Valuations

Property and property related assets are inherently difficult to value due to the individual nature of each property. As a result, valuations are subject to substantial uncertainty. There is no assurance that the estimates resulting from the valuation process will reflect the actual sales price even where such sales occur shortly after the valuation date. Investments in property are relatively illiquid; however the Fund has sought to mitigate this risk by investing in properties that it considers to be good quality.

Fair values are determined using information from a variety of sources, including:

- Independent real estate valuation experts using recognised valuation techniques. These techniques comprise both the Yield Method and the Discounted Cash Flow Method. In some cases, the fair values are determined based on recent real estate transactions with similar characteristics and location to those of the Fund's assets;
- Current prices in an active market for properties of a different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences; and
- Recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices.

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The determination of the fair value of investment property requires the use of estimates such as future cash flows from assets (such as lettings, tenants’ profiles, future revenue streams, capital values of fixtures and fittings, any environmental matters and the overall repair and condition of the property) and discount rates applicable to those assets. In addition, development risks (such as construction and letting risks) are also taken into consideration when determining the fair value of investment properties under construction. These estimates are based on local market conditions existing at the reporting date.

Level 1: The best evidence of fair value is a quoted price for an identical asset in an active market. Quoted in an active market in this context means quoted prices are readily and regularly available and those prices represent actual and regularly occurring market transactions on an arm’s length basis. The quoted price is usually the current bid price.

Level 2: When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place. If the entity can demonstrate that the last transaction price is not a good estimate of fair value (e.g. because it reflects the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distress sale), that price is adjusted.

Level 3: If the market for the asset is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, an entity estimates the fair value by using a valuation technique. The objective of using a valuation technique is to estimate what the transaction price would have been on the measurement date in an arm’s length exchange motivated by normal business considerations.

All properties within the portfolio are categorised as Level 3.

## Key Unobservable Inputs

The two key unobservable inputs are ERV (Estimated Rental Value) and equivalent yield. The estimated fair value of the investment properties would decrease if ERV as a percentage of passing rent decreased and increase if ERV as a percentage of passing rent increased. The estimated fair value would decrease if the yield was increased and increase if the yield was reduced.

The range of these two inputs applied in the 2022 valuations by Knight Frank is provided below:

Sector	Total Valuation Figure	ERV Range (psf)			Equivalent Yield Range		
		Max	Av	Min	Max	Av	Min
Retail - High Street	2,050,000	£97.00	£22.19	£6.67	6.50%	6.38%	6.25%
Retail - Supermarkets	3,200,000	£20.00	£20.00	£20.00	5.25%	5.25%	5.25%
Retail - Warehouses	258,900,000	£36.50	£16.38	£7.50	7.40%	5.39%	3.47%
Warehouses / Industrial	513,300,000	£16.50	£7.62	£1.00	9.65%	4.66%	3.00%
Offices	243,955,000	£70.00	£32.44	£10.00	10.00%	6.35%	3.73%
Alternatives	365,595,000	n/a*	n/a*	n/a*	8.00%	5.43%	3.35%
Total	£1,387,000,000						

\* ERV range has not been provided for the alternatives asset class as the inputs for these properties are assessed on various bases and therefore the range is not considered meaningful.

# Notes to the Financial Statements Continued

## 9 Debtors

	As at 24 June 2022	As at 24 June 2021
	£	£
Amounts receivable for creation of units	23,185,387	31,888,560
Net rent receivables	11,157,077	8,126,300
Amounts due from managing agents	2,357,697	932,885
Insurance receivables and prepayments	86,449	88,970
Sundry debtors	101,760	118,635
Loan arrangement fee	21,385	17,342
Sundry prepayments	468,677	533,122
	37,378,432	41,705,814

Net rent receivables are stated after allowances for doubtful rent receivables of £1,404,985 (2021: £3,214,909).

## 10 Creditors

	As at 24 June 2022	As at 24 June 2021
	£	£
Prepaid rent	13,751,617	10,478,730
Purchases awaiting settlement	546,678	107,858
Manager and Property Manager fees	66,000	33,000
Corporate Trustee fees	53,095	91,620
Audit fees	84,000	50,000
Valuation fees	59,238	46,706
Credit facility non utilisation fee and debt arrangement fee	49,068	31,438
VAT payable	3,583,190	1,162,847
Other creditors	2,574,068	773,096
Retentions	98,315	71,783
Finance lease liability	80	86
Acquisitions payable	32,982,813	-
	53,848,162	12,847,164



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## 11 Finance Leases (Non Current)

	As at 24 June 2022	As at 24 June 2021
	£	£
Finance lease	778,879	778,948
Total	778,879	778,948
The future minimum lease payments are as follows:		
	As at 24 June 2022	As at 24 June 2021
	£	£
Not later than 1 year	37,500	37,500
Later than 1 year and not later than 5 years	150,000	150,000
Later than 5 years	4,607,748	4,645,248
Total gross payments	4,795,248	4,832,748
Less: Future finance charges	(4,016,289)	(4,053,714)
Carrying amount of liability	778,959	779,034

Total finance lease liabilities amount to £778,959 (2021: £779,034), of which £80 (2021: £86) is considered current liabilities (see note 10). The remaining £778,879 (2021: £778,948) is due after more than 1 year.

## 12 Related Party Transactions

Details of the Manager, Property Manager and Corporate Trustee can be found on page 84.

During the year the Manager has received management fees of £6,140,163 (2021: £5,855,825) and the Property Management Company fees of £117,700 (2021: £141,819) thereby totalling £6,257,863 (2021: £5,997,644). These fees can be seen in Note 5, Expenses. The amount outstanding at the year end in respect of those fees was £66,000 (2021: £33,000), as can be seen in Note 10, Creditors.

During the year the Property Manager has received transactional fees of £388,350 (2021: £268,646), which are capitalised to Investment Property and deducted from realised gains or losses on disposal. The Property Manager has also received fees relating to asset management activity of £141,115 (2021: £584,116). These fees sit within Note 5, Legal and Professional Expenses.

During the year the Facility Manager has received nil (2021: £4,545) with nil outstanding at year end (2021: nil).

During the year the Corporate Trustee received £202,016 (2021: £186,038). Amounts payable to the Corporate Trustee or associates of the Corporate Trustee are shown in Note 5, Expenses. Amounts due are shown in Note 10, Creditors. The amount outstanding at the year end in respect of those fees was £53,095 (2021: £91,620).

The aggregate monies received through creations and paid through cancellations are disclosed in the Statement of Change in Net Assets Attributable to Unitholders. During the year the Manager has received fees of £512,339 (2021: £560,216) as a result of dealing activity in the Fund. Subscription money awaiting investment into The Charities Property Fund is held in a client money account and dealt with in accordance with the FCA's Client Money Rules.

# Notes to the Financial Statements Continued

## 13 Unit Reconciliation

The below table details the movement in application and redemption units over the past 12 months. Please also see the table on page 57 'Fund History'.

Trading Quarter	No. Units	GROSS		Net Movement
		Applications	Redemptions	
			£	£
24 Sep 2021	932,874,932.556	11,433,221.868	9,433,117.443	2,000,104.425
24 Dec 2021	927,731,698.157	11,841,059.386	16,984,293.785	-5,143,234.399
24 Mar 2022	959,272,452.610	42,995,271.320	11,454,516.862	31,540,754.458
24 Jun 2022	974,554,147.145	35,117,377.549	19,835,683.014	15,281,694.535
	Total	101,386,930.123	57,707,611.104	43,679,319.019

## 14 Contingent Liabilities

There were no contingent liabilities at the year end (2021: none).

## 15 Capital and Other Commitments

At 24 June, the Fund had the following capital commitments:

	As at 24 June 2022	As at 24 June 2021
	£	£
Contracts for future capital expenditure in investment properties	7,443,901	262,237

## 16 Post Balance Sheet Events

On 29 June 2022, the Fund completed on the acquisition of a portfolio of five car show rooms for a combined purchase price of £22,300,000.

On 26 August 2022, the Fund completed on the disposal of SEAT, Watson Road, Birmingham for a sales price of £2,250,000.

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## Fund Structure

The Charities Property Fund is a Common Investment Fund which is an open ended investment vehicle, similar to a unit trust, but designed specifically for charities and established under Section 96 of the Charities Act 2011. Common Investment Funds are themselves charities with schemes approved and regulated by the Charity Commission. As a charity, the Fund is currently exempt not only from Stamp Duty Land Tax but also Capital Gains Tax and Income Tax.

## Investment Objectives

The Fund aims to provide a high and secure level of income with the prospect of growth in income and to maintain the capital value of assets held in the Fund, through investing in a diversified UK commercial property portfolio. The Fund invests in the principal commercial property sectors: office, retail, industrial and other (alternative uses such as hotels, leisure, car showrooms, and roadside). It does not undertake speculative investments.

The Manager does not intend to hold more than 10% in value of the property of the Fund in cash or Near Cash (as defined in FCA Handbook of Rules and Guidance).

## Unit Dealing

As the Fund is valued quarterly, units can be purchased at the end of March, June, September and December. Normally units will be redeemed with effect from a quarter day though this is subject to cash being available for redemptions. In addition, where there are both subscriptions and redemptions at a quarter day, the Manager may apply a matching process. The Manager may, at its sole discretion, defer the acceptance of applications on a pro rata basis when the value of unit applications exceeds the value of units the Manager believes is prudent to issue. These applications for units which have been scaled back will remain valid in respect of the unallocated element for a further three months, i.e. until the next Dealing Date and will be dealt with in priority to those applications first made at this dealing date.

To protect the overall position of unitholders, there are clearly defined restrictions on the right to redeem; the Manager has a general right to delay redemptions for up to 12 months from the Dealing Date in respect of which the application for redemption of units is first made, and where redemptions sought represent an aggregate value of 10% or more of the Net Asset Value of the Fund, the Manager may delay sales for a period of up to 24 months from the Dealing Date in respect of which such application(s) are made. Full details are set out in the Scheme Particulars.

## Minimum Investment

The minimum investment in the Fund for new investors is £25,000, although smaller amounts may be accepted at the Manager’s discretion. There is no minimum investment for existing unitholders.

## Distribution

The income is paid gross on a quarterly basis, six weeks after each valuation point (on or before 15 February, 15 May, 15 August and 15 November).

## Corporate Trustee

Citibank UK Limited is the corporate trustee and depository of the Fund, as set out in the Scheme Particulars. The Fund acts by and through the Corporate Trustee. When the Fund acquires property, it does so by way of the Corporate Trustee appointing Citiclient (CPF) Nominees Limited and Citiclient (CPF) Nominees No 2 Limited to hold the relevant property of the Fund as nominees and bare trustees for the Corporate Trustee.

The Corporate Trustee will be entitled to receive fees (payable quarterly in arrears) based on the Net Asset Value at the start of the accrual period, on each Valuation Date. The fees (excluding value added tax) are subject to a minimum fee of £15,000 p.a. and will be based on the following annual rates:

- £0 to £200 million – 0.02%;
- above £200 million – 0.015%.

The Corporate Trustee may increase the current rates of fees if:

- (i) the Corporate Trustee has given notice in writing to the Manager and to the unitholders of its intention to increase these rates of fees;
- (ii) the Scheme Particulars have been revised (subject to the prior written approval of the Commission) to reflect the proposed increase in the rates; and
- (iii) 90 days have elapsed since the revised Scheme Particulars became available.

## Alternative Investment Fund Manager (AIFM)

Under an AIFM Agreement, the Fund appointed the existing manager of the Fund, Savills Investment Management (UK) Limited as its Alternative Investment Fund Manager (AIFM) for the purposes of the AIFM Directive in 2014. The AIFM is admitted and regulated in the United Kingdom by the Financial Conduct Authority (the “FCA”).

The AIFM is subject to the requirements set out in the AIFM Directive, the Scheme and the Scheme Particulars. In its capacity as AIFM, it carries out the following tasks under the AIFM agreement:

- (i) Asset management of the Fund, including, without limitation, portfolio and risk management; and
- (ii) Marketing and distribution of units in the Fund.

In accordance with the provisions of the AIFM Directive and with the approval of the FCA, the AIFM may delegate, at its own responsibility and cost and under its own supervision, tasks to other entities suitable for the relevant purpose and having the necessary qualification, experience and resources. Any such delegation will be disclosed to the investors. The portfolio management of the Fund was delegated to Savills Investment Management LLP by the AIFM. Citibank UK Limited was appointed as the depository of the Fund. To cover potential professional liability risks resulting from negligence in its business activities, the AIFM has appropriate and sufficient professional indemnity insurance, as stipulated by the relevant provisions of the AIFM Directive.



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## Remuneration Code Disclosure for Savills Investment Management (UK) Ltd

The Financial Conduct Authority’s (FCA) AIFM remuneration Code applies to Savills Investment Management (UK) Ltd (“Manager / AIFM”). The Manager has considered the FCA’s proportionality guidelines and taking account of size, the lack of complexity and the low risk of the Manager a number of the remuneration rules have been disapplied.

The disclosure covers the remuneration paid in respect of the financial period from 1 January 2021 to 31 December 2021 for Savills Investment Management LLP (the parent of the Manager) and its subsidiaries (“Savills IM Group”).

### Decision Making Process

Savills IM Group has a Remuneration Committee that meets regularly to consider issues relating to the remuneration policy and the structures for all employees of the Savills IM Group including those of the Manager. The Savills IM Remuneration Policy Statement is reviewed and agreed annually by the Savills IM Remuneration Committee. The Remuneration Committee is comprised of two shareholder representatives and the Savills IM Chief Executive Officer and is delegated from the Savills IM Board.

Remuneration is reviewed annually, in conjunction with the Savills IM Group appraisal process. A recommendation regarding salary and bonus levels is made by an individual’s line manager and assessed against the Savills IM Group as a whole by the Savills IM Global Executive Committee. Salaries are also benchmarked against market averages. The Savills IM Global Executive Committee will recommend salary changes and discretionary bonus payments to the Remuneration Committee for approval and adoption. Interim reviews are undertaken on an exceptions basis only.

### Link Between Pay and Performance

Remuneration is dependent on both the performance of the Manager and the individual. The bonus pool is calculated as a fixed percentage of pre-tax Savills IM Group profits. The fixed and variable elements of remuneration have been developed to attract and retain high calibre staff to ensure the Manager is in a position to deliver the business plans and maximise return to shareholders. The remuneration policy and incentive structures apply to all code staff, rewarding them only when their goals are achieved. Employees of the Manager received; salary, car allowance, discretionary bonus and incentive shares in the ultimate parent, Savills Plc. Share awards are made in line with the Savills Group policy, in the form of retention or bonus awards, details of which can be found within the Savills plc Report and Accounts.

### Staff Remuneration

The total aggregate remuneration for staff was GBP 46,766,000 of which there were 290 beneficiaries. GBP 30,375,000 of this remuneration was fixed and GBP 16,401,000 was variable. 50 of the beneficiaries were identified as remuneration code staff, as defined by the remuneration code, and their total aggregated remuneration was GBP 18,837,000. GBP 7,966,000 of this remuneration was earned by Senior Managers and GBP 10,871,000 was earned by other code staff.

Of the total aggregated remuneration of the code staff, GBP 2,756,000 can be assumed to relate to the Fund of which GBP 1,165,000 of this remuneration was earned by Senior Managers and GBP 1,591,000 was earned by other code staff. GBP 1,790,000 and GBP 966,000 corresponded to fixed and variable remuneration, respectively.

## The Manager and Property Manager

The Manager’s fees and the Property Manager’s fees are combined into one management charge. This periodic management charge shall accrue on a quarterly basis and will be determined by the Net Asset Value of the Fund at the start of the accrual period. It will be deducted and paid at the end of each quarter out of the Fund’s assets. The fees (excluding value added tax) will be based on the following annual rates:

- £0 to £100 million – 0.70%;
- £100 to £500 million – 0.525%;
- above £500 million – 0.45%.

The Manager may increase the current annual management fees and the current preliminary charge (or introduce a redemption charge) if:

- (i) the Manager has given notice in writing to the Corporate Trustee and to the unitholders of its intention to increase the rates of annual management fees, or to increase the preliminary charge, or to introduce a redemption charge (as the case may be);
- (ii) the Scheme Particulars have been revised subject to the prior written approval of the Charity Commission to reflect the proposed increase in these rates of annual management fees, or to increase the current preliminary charge, or to introduce a redemption charge; and
- (iii) 90 days have elapsed since the revised Scheme Particulars became available.

## Preliminary Charge

The Manager also applies a preliminary charge of 0.25% of the initial price of the units and this is included in the price at which units may be purchased.

This charge may be reduced at the Manager’s sole discretion.

## Borrowing Powers

Under the Scheme, the Manager is allowed to borrow money for the use of the Fund in certain circumstances. The Manager intends to use this power when it considers this to be in the best interests of the unitholders, principally either to obtain bridging finance to purchase real property for the Fund in anticipation of the receipt of committed subscriptions from existing or new unitholders or to finance the redemption of units pending the receipt of sales proceeds. Borrowing will not exceed 10% of the Net Asset Value of the Fund on any Business Day.

## Insurance and Service Charge Rebates

Service charges on properties held by the Fund are generally payable by tenants. To the extent that these are not recoverable (for example, if a unit is not let), the Fund will cover the shortfall. Where there are surpluses in service charge budgets, rebates are received by the Fund. Details of rebates received by the Fund during the financial year can be found in note 5 to the financial statements.

No insurance charge commission is earned by the Fund. Commission is earned by the Property Manager for its services in arranging insurance policies for properties held by the Fund.



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# Trustee, Manager and Advisers

## Details

### Corporate Trustee and Depository

Citibank UK Limited  
Citigroup Centre  
Canada Square  
Canary Wharf  
London  
E14 5LB

### Standing Independent Valuer

Knight Frank LLP  
55 Baker Street  
London  
W1U 8AN

### Legal Adviser

Farrer & Co  
66 Lincoln’s Inn Fields  
London  
WC2A 3LH

### Performance Measurement

MSCI (formerly IPD)  
9th Floor  
10 Bishops Square  
London  
E1 6EG

### Customer Due Diligence Administrator

Sanne Fiduciary Services (UK) Limited  
6th Floor  
125 London Wall  
London  
EC2Y 5AS

### Manager / AIFM / Trustee

Savills Investment Management (UK) Limited  
33 Margaret Street  
London  
W1G 0JD

### Investment Adviser

Savills Investment Management LLP  
33 Margaret Street  
London  
W1G 0JD

### Auditor

KPMG LLP  
15 Canada Square  
London  
E14 5GL

### Property Manager

Savills (UK) Limited  
33 Margaret Street  
London  
W1G 0JD

### Transfer Agent and Administrator

Langham Hall UK Services LLP  
8th Floor  
1 Fleet Place  
London  
EC4M 7RA

This report is issued by Savills Investment Management (UK) Limited (registered in England, number 03680998 at 33 Margaret Street, London W1G 0JD), which 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.

This document is provided for information purposes only and may not be reproduced in any form without the express permission of the Manager. The opinions expressed here represent the views of the Manager at the time of preparation and should not be interpreted as investment advice. This report is aimed at existing investors in the Fund, but it may also be distributed to prospective investors. This report is not an offer to invest in the Fund and independent financial advice should be sought before considering investment into the Fund.

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. Taxation levels, bases and if relevant, reliefs can change. Property can be difficult to sell and it may be difficult to realise your investment when you want to.

Handstand Creative  
www.handstandcreative.com



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33 Margaret Street,  
London W1G 0JD  
Telephone: 0203 107 5439  
Fax: 0845 409 1281  
[cpf@savillsim.com](mailto:cpf@savillsim.com)  
[www.cpfund.co.uk](http://www.cpfund.co.uk)

