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

29 April 2020

Dear investor,

CHARITIES PROPERTY FUND Q1 2020 FACTSHEET

We hope you are keeping well in these difficult times. The word “unprecedented” has been used a great deal recently and for good reason. Whilst the world has experienced pandemics before (and as recently as 2009 with the H1N1 bird flu) none have been on this scale for over 100 years.

Our focus continues to be on what this means for commercial real estate and in particular the Charities Property Fund. To help shed some light on things, we thought we would share what we know and provide an update on the fund covering valuations and performance along with progress on rent collection and upcoming dividend payments.

We also enclose a copy of the Q1 quarterly factsheet.

The Fund

As discussed in our letter of 20th March, whilst our Independent Valuer, Cushman & Wakefield (along with other valuation firms) are still able to produce valuations and make professional judgements they are with less certainty than under normal market conditions.

As communicated, this resulted in us temporarily suspending the Fund in line with FCA guidance and in the interest of unit holders. This was disappointing as at the March 2020 quarter, application amounts exceeded redemptions and we were not experiencing a liquidity squeeze. Indeed on top of being in receipt of net positive subscriptions this quarter, we also hold significant additional cash balances which have been deliberately increased in recent years. Therefore we have no issue with liquidity and dearly wish we could have remained open as we did during the 2016 referendum crisis.

However whilst the valuers have included a material valuation uncertainty clause, it doesn’t prevent them having an opinion of value and it allows us (and all other property funds) to calculate performance and compare ourselves relative to our peers. Q1 performance is set out below:

	3 months	1 year	3 years (pa)	5 years (pa)	10 years (pa)
The Charities Property Fund	0.3%	1.5%	6.1%	7.2%	8.3%
AREF/MSCI All Balanced Property Funds Index	-1.3%	0.0%	4.8%	5.8%	7.1%

Source: Savills Investment Management, AREF/MSCI All Balanced Property Fund Index (March 2020)

The March 2020 valuation did show a small reduction of -0.77% resulting in a reduction of the Unit Price NAV from 127.23 pence per unit in December 2019 to 126.25 pence per unit in March this year. However the total return remains positive once the dividend is incorporated. We are one of only three funds (out of 29) in the AREF All Balanced Property Funds Index to register positive performance this quarter.

As we have often commented, the Charities Property Fund tends to perform well against its peers in times of turmoil and relative outperformance has been marked in 2008 (GFC), 2012 (Greek debt crisis), 2013 (Eurozone crisis), 2016 (Brexit referendum) and again over the last 12 months.

<u>COVID-19 day to day running of the Fund and rent collection</u>

The Government measures to help businesses deal with the impact of Covid-19 are substantial and well publicised, including the furlough scheme, loans for businesses, help for the self employed, charities and 100% business rates relief for 12 months for retail, leisure and hospitality occupiers. As the crisis has unfolded, not only have new measures been put in place as further implications reveal themselves, but the emergency measures initially introduced have been updated, or had their remit widened as the Government, businesses and society try to cope with and make sense of a truly extraordinary course of events.

Whilst some Savills IM offices globally are currently open, the majority of employees are smart working (with the UK team working from home). Our working environments may have changed and our ability to go and see the Fund's assets is for the time being impaired, but we continue to operate as if we were stationed at the office and believe that home working will have a negligible impact in the way that we manage the existing assets.

Since our last letter, the March quarter day has also passed and whilst March rent demands were issued someway ahead of the Covid-19 lockdown, the Government's decision to impose restrictions on people's movement and business activity coincided with a quarter's rent becoming due for most of the Fund's tenants.

As part of the Government measures to assist commercial tenants during the Covid-19 pandemic, landlords have been prevented from forfeiting for unpaid rent (including service charge payments or other sums reserved as rent) until the end of June 2020. These measures were detailed in the Coronavirus Act to assist all forms of business tenants and not just retailers. This means that for any forfeiture proceedings going through the courts, any order for possession will be delayed until after 30 June 2020 (or later if the Government extends the period). We did not have any forfeiture proceedings in play when this legislation was passed but the moratorium does remove the threat of forfeiture for non-payment of rent from any discussions with existing tenants.

Although maintaining business as usual and protecting investments are key considerations, since the March quarter-day we have been working with our tenants in order to ensure longer term stability. Like many institutional landlords, the Charities Property Fund team have taken the view that applying an overly legal approach to property relationships while in the midst of this crisis will not achieve anyone's business goals. In the vast majority of cases enforcement and litigation at this stage of events may well be counterproductive to long term relationships and value.

Therefore we have been working closely with our Property Management teams to monitor rent and service charge collection and agree a firm but fair approach to requests for concessions received. We have reviewed the merits of each request on a case by case basis but generally we have allowed:

- Rent can be paid on a monthly basis for Q2 and in some cases Q3, but on the understanding that the tenant sets up a standing order to do this.
- We will allow rent deferral for 3 months by application for tenants directly affected by COVID-19 with tenants providing a rationale and business case for our consideration. Rent will be deferred and repaid over the following 6-18 months depending on the circumstances.
- Service charge must still be paid as this funding is critical for keeping our properties operational.

Importantly, any concession that is agreed will be confirmed in writing with each tenant on the provision that following the end of the concession period, the payments return to normal, that this is temporary concession and not a variation and that any concession agreed is disregarded for the purposes of rent review/lease renewal with an acknowledgment that it will not be used as comparable evidence. Where it will preserve and enhance asset values, we are also looking to be proactive with tenants through asset management initiatives such as extending leases and removing tenant break options in return for granting a concession to an occupier to assist with their immediate cashflow.

The Charities Property Fund Q1 distribution (for rent collected 25 December - 25 March) was unaffected by Covid-19 and will be distributed in the normal way on 15 May. We are anticipating this to be circa 1.3 pence per unit (the same as February). In terms of Q2 we have either physically collected (or will collect in the case of agreed monthly payments) approximately 70% of all rents due by the end of the quarter. We have agreed deferrals with 20% of tenants and remain in negotiations with the remaining 10% (see attached factsheet). Assuming we err on the side of caution and only distribute rents physically received for Q2, this would in broad terms translate into a dividend 25% lower in August than May. Obviously the deferred rent would then be distributed when collected, potentially inflating future dividends during 2021. We also hold rent deposits in a number of cases that can be called upon in the event of default or a payment plan not being adhered to.

Our experience on rent and service charge collection appears to be at the upper end of the wider market experience. Savills Property Management have compiled rent and service charge collection analysis across a cross UK sector sample of 442 properties that they manage on behalf of 182 clients with an annual rent roll of £178.7 million and report an average overall rent collection rate of c. 50% at quarter-day +7 days. Retail was hardest hit with less than 30% of due rent received. Offices fared better, with a collection rate of 72% on multi-let buildings. Since the March quarter-day, they have received almost 1,500 formal applications to withhold rent with many tenants simply not paying and remaining silent. According to Re-Leased (a cloud based commercial property management platform), just 49.7% of rent due to commercial landlords had been received 10 days after the March quarter, a 28.7% decline on the average of 69.7% collection from the last two years. This analysis is based on 35,000 leases and 10,000 properties across the UK.

They also report that there is anecdotal evidence of some landlords becoming increasingly frustrated with well capitalised tenants (particularly big global brands) and those who are receiving extensive Government assistance, e.g. the employee Furlough scheme, emergency business loans and business rates holidays. The majority of landlords are, at most, only prepared to offer a payment deferral at this stage, however a few have offered to write off this second quarter. Generally these are on the whole special circumstances where a landlord is seeking to protect a large single estate (i.e. Argent at King's Cross) where there could be domino consequences.

Generally, we do not believe there are any immediate risks of tenant failure at our properties and the Charities Property Fund is well positioned to ride out the Covid-19 storm. We have a large, diversified portfolio encompassing 127 properties and 238 tenants. The portfolio is broadly split equally across the four property sectors - so we are not overly exposed to one particular sector. We have a strong south east focus and income is diversified and largely secured to national multiples/household names. Where we have retail occupiers they are predominately food, discount and convenience (60%) and the majority of these outlets are still trading. We have no shopping centres and minimal high street or fashion exposure. The vast majority of our office tenants are also undertaking working from home policies and our logistics occupiers are also functioning. Car dealerships appear to be well capitalised and have either paid their March quarter's rent or we have agreed sensible deferment strategies with swift repayment thereafter. The hotels, serviced apartments and school accommodation appear to be suffering the most, but generally these properties are in excellent locations (Cambridge, Bath, Oxford, Brighton, Poole and Manchester) and again whilst we are happy to support the occupiers with deferments, we are confident of recouping the deferred rent. Continued dialogue with all of our tenants is key to understanding specific risk across the portfolio and our intimate knowledge of the assets and pre-existing relationships with tenants has equipped us well to react quickly to the crisis.

<u>SUMMARY</u>

On a cautious note, even with Government support, if businesses are unable to function and operate for extended periods of time, cashflow will become an issue. Whilst arguments for deferring March rent/service charge payments can be seen as cashflow planning, the reality of paying June (and future) demands may become a real problem if COVID-19 results in an extended period of lockdown and economic contraction.

Risk remains around income collection with even greater uncertainty for June quarter's rent assuming Government restrictions remain in place for the foreseeable future. We will have to maintain close scrutiny on those tenants that have requested monthly payments and rental deferments to ensure that they comply with the conditions that have been set.

On a positive note, the investment case for real estate investment remains strong, it is physically unaffected by viruses and in the long term (and in many cases the short term too) continues to provide income stability and the ability to add value through active asset management. Moreover, property yields continue to offer a healthy and rising margin over UK gilt rates and interest rates.

Hopefully this letter provides some reassurance that the Fund's property assets continue to be actively managed despite remote working by the Fund team with housekeeping adjustments made to ensure the smooth running of the portfolio.

Returning to the beginning, we are facing abnormal and singular circumstances (you could say unprecedented!), but again we come back to the cautious approach of the Fund - we have no debt and therefore any fall in capital values does not put the Fund at risk with lenders or have a magnifying effect on performance. We have no indirect property holdings and we own no listed stocks; all our properties are 100% owned by the Fund – we have no complicated joint ventures or shared ownerships; we do not undertake speculative development and have consistently pursued a cautious, low risk approach and focused on creating a quality, predominately prime portfolio. This will be particularly important as occupiers will be reticent to risk losing some of these locations despite short term incertitude.

We benefit from long leases; a high percentage of index linked leases; we have a very well balanced portfolio (circa 25% in each sector); we have little exposure to fashion, student accommodation, restaurants, serviced offices (those hardest hit) and a higher exposure to logistics and food and discount retail (those least affected). Where we are exposed - hotels and serviced apartments for example, these are generally in excellent locations (Bath, Cambridge, Brighton, Poole, Manchester). Yes, we have agreed to give some of these occupiers a temporary suspension, but are confident they will ultimately repay us. Finally we have a very low vacancy rate at 5.1% (compared to MSCI at 9.3%) and whilst this could rise through tenant failures, we also have three currently vacant properties under offer to prospective tenants which if they complete would reduce our vacancy rate to 3.3%.

We tend to outperform the market by a more considerable margin in times of uncertainty for all these reasons.

Yours sincerely,

Harry de Ferry Foster MRICS
Fund Director

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

IMPORTANT NOTICE

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

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

This letter has been prepared for existing investors of the Fund. It has been 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.

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

The current COVID-19 crisis has created material uncertainty in many areas connected with real estate as well as in the macro-economic environment, including as to valuations and market transaction levels. As a result, all forecasts are subject to further volatility. The information above is provided on a confidential basis to existing and potential investors in the interests of maximum transparency in the current exceptional market environment.

FUND OBJECTIVES

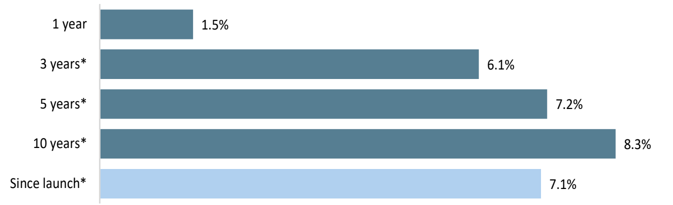
The Charities Property Fund is the original and largest tax efficient pooled property vehicle available to all charities in the UK (AREF/MSCI March 2020). It is a Common Investment Fund regulated by the Charity Commission. The Fund's objective is to invest in property throughout the UK to provide a balanced and diversified portfolio to deliver a high and secure level of income and to maintain the capital value of assets held over the long term.

KEY POINTS - 31 MARCH 2020

- Fund size £1.244 billion
- No debt
- Well diversified and balanced portfolio
- 127 properties and 238 tenants
- Negligible exposure to the high street and no shopping centres
- 65% of the portfolio located in London and the South of England
- High yielding (4.8% gross and 4.2% net of costs)
- Low vacancy rate (5.1% versus MSCI at 9.3%)
- Strong covenants (85.3% rated low or negligible risk, compared to MSCI at 77.9%)
- Long average unexpired lease term of 11.8 years to expiry (9.2 years to break). MSCI: 8.2 years to expiry (7.0 years to break)
- 41.2% of income benefits from fixed or index linked rental increases

The Fund total return for Q1 2020 was 0.3% compared to the Index of -1.3%. Over the last 12 months the Fund produced 1.5%, against the AREF/MSCI All Balanced Property Fund Index which returned 0.0%.

FUND PERFORMANCE



*annualised

Source: Savills Investment Management, MSCI (March 2020)
Basis: NAV-to-NAV with gross income reinvested
The Charities Property Fund launched in 2000. Total return is net of fees and expenses.
Past performance is not an indicator of future performance.

Over the last five years the Fund has returned 7.2% per annum, compared to the Index of 5.8% per annum. Over 10 years the Fund returned 8.3% per annum, compared to the Index at 7.1% per annum (source: MSCI).

Q1 COVID-19 UPDATE

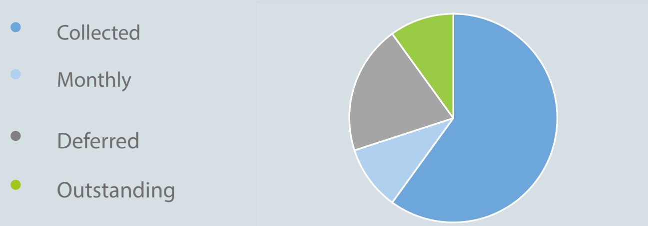
PURCHASES & SALES

There have been no property purchases or sales this quarter.

Q1 & Q2 RENT COLLECTION

Rent for Q1 was collected as normal and will be distributed on 15 May. We are estimating the May dividend to be 1.3 pence per unit, in line with February.

Q2 rent collection statistics are also reassuring under the circumstances. Over 60% of all due rents have already been collected and elsewhere we have agreed that a further 10% of tenants can pay monthly. Therefore we anticipate over 70% of Q2 rents being collected during the quarter. We have agreed rental concessions or deferments with a further 20% of our occupiers, where the rent will remain due, but they will have longer in which to repay it. We are in advanced discussions with the remaining 10%.

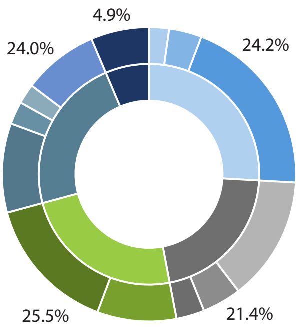


ASSET MANAGEMENT

We are pleased to report that since the lockdown commenced, we have agreed terms on six new leases, two of which have been signed.

We are also very close to signing a third lease with Lidl in **Hereford**. They are expanding from their existing unit, into the adjoining unit which is currently empty (vacated by Poundworld). They are signing a new 25 year lease on both (with breaks after 15 and 20 years) at a rent of £279,000 pa (£16.60 per sq ft).

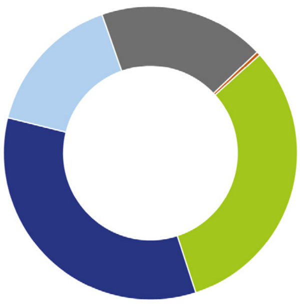
CPF PORTFOLIO MARCH 2020



Retail	24.2%
High Street	1.9%
Supermarkets	3.8%
Retail Warehouse	18.5%
Offices	21.4%
London Offices	12.4%
South East Offices	4.8%
Rest of UK Offices	4.2%
Industrial & Distribution	25.5%
South East Industrials	9.9%
Rest of the UK Industrials	15.6%
Alternatives	24.0%
Leisure	2.5%
Hotels/Student/ Serviced apartment	10.5%
Automotive	8.7%
Roadside	2.3%
Cash	4.9%

Source: Savills Investment Management, March 2020

GEOGRAPHICAL WEIGHTINGS



Greater London	30.3%
South East & South West	35.1%
Midlands & Wales	15.8%
North	18.4%
Scotland	0.4%

Source: Savills Investment Management, March 2020

Charities Property Fund - Factsheet

FUND INFORMATION - (AS AT 31 MARCH 2020)

Launch date	September 2000
Fund Size	£1.244 billion*
No. of investors	1,917
Historic distribution yield	4.2%**
Prospective distribution yield	4.2%***
Fund costs (TER)	0.57% per annum
Unit price	NAV - 126.25 pence*
	Bid - 124.52 pence*
	Offer - 128.43 pence*
Bid spread	1.45%
Offer spread	1.55%
SEDOL	0208075
Next distribution date	15 May 2020
Last distribution rate	1.30p per unit

* This is an indicative NAV pricing and is published on a non-reliance basis. The underlying valuation of investment properties includes a material value uncertainty clause by the Valuer given the unknown future impact that COVID-19 might have on the real estate market.
** Based on the last four distributions declared divided by the current NAV
*** Based on the next four estimated distributions divided by the current NAV
# Applications must be received on the 15th day of the month in which the Valuation Date falls (or if that is not a Business Day the preceding Business Day) for dealing on the next Dealing Date.

FIVE LARGEST TENANTS

Macmillan Publishers International Limited	3.7%
Sytner Properties Limited (surety: Sytner Group Limited)	3.7%
Tesco Stores Limited	3.6%
Travelodge Hotels Limited	3.4%
Sainsbury's Supermarkets Ltd (surety: Sainsbury's plc)	3.1%
Total (across 14 locations)	17.5%

10 LARGEST ASSETS

London EC1 - The Smithson, 6 Briset Street, Farringdon	5.9%
Barnet - Sainsbury's, East Barnet Road	3.7%
London SE7 - Brocklebank Retail Park, Greenwich	3.5%
Brighton - Jurys Inn Hotel, Stroudley Road	3.5%
Gateshead - Metro Park West	3.2%
Cambridge - Travelodge, Newmarket Road	2.4%
London E1 - 122 Back Church Lane, Whitechapel	2.0%
London EC2 - Rivington House, Shoreditch	1.7%
Twickenham - Apex Retail Park	1.5%
Telford - Welcome Break Service Station	1.5%
Total	28.9%

Source: Savills Investment Management March 2020

ASSET MANAGEMENT

In **Wellingborough** we have completed a new 10 year lease on a manufacturing warehouse with the existing occupier, CCL Labels Limited. This property was acquired by CPF in 2011 at a yield reflecting in excess of 9%. At purchase the property was let on a lease due to expire in March 2020. In 2019 as the lease expiry approached we engaged with the tenant and agreed to extend the lease by 5 years.

Terms were agreed prior to the Covid-19 crisis and it is interesting to note that subsequent to the lockdown in the UK, the tenant approached us seeking a longer term commitment so we agreed a new 10 year lease at the same rent but with additional rent free.

CCL is a manufacturer of adhesive labels for a wide variety of customers and industries. The business is headquartered in North America and we secured a guarantor to the lease from the UK parent company which has net assets in excess of £400 million.

To date, the property has delivered £4.5 million of income to investors and if we hold to expiry of the new lease in 2030 then the asset will have delivered approximately £8.5 million of income against a purchase price of £5.3 million. We are pleased to have secured a long term commitment from a good quality tenant which safeguards income for a further 10 years and will increase the capital value of the asset.

Finally we have signed a new 10 year lease to Sunseekers at **Halewood** Retail Park. This is the only vacant unit on the scheme and the agreed rent of £25,000 pa reflects a 39% increase on the previous rent payable of £18,000 pa.

The tenant will have a break option in year 5. This is very positive that they have committed in the midst of lockdown.

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Disclosures
Investment in the Fund is only available to charities within the meaning of section 96 or 100 of the Charities Act 2011. Past performance is not an indicator of future performance. The value of investments and the income derived from them may fall as well as rise. Investors may not get back the amount originally invested and may lose money. Properties within the Fund are valued by an external property valuer; any such valuations are a matter of opinion rather than fact. The performance of the Fund may be adversely affected by a downturn in the property market which could impact on the value of the Fund. Any forward-looking statements are based upon our current opinions, expectations and projections. We undertake no obligations to update or revise these. Actual results could differ materially from those anticipated. The Fund is approved by the Charity Commission as a Common Investment Fund under section 24 of the Charities Act 1993 (as amended or replaced from time to time) and is an Unregulated Collective Investment Scheme and an Alternative Investment Fund. Investments and deposits in the Fund and the Fund itself are not covered by the Financial Services Compensation Scheme (FSCS). However, the Manager may pay fair compensation on eligible claims arising from its negligence or error in the management and administration of the Fund. Savills Investment Management (UK) Limited (registered in England No. 03680998 at 33 Margaret Street, London W1G 0JD) is authorised and regulated by the Financial Conduct Authority and is the manager of the The Charities Property Fund (Registered Charity No. 1080290).