

25 July 2022

Dear Investor,

## CHARITIES PROPERTY FUND Q2 2022 FACTSHEET

The Charities Property Fund delivered a +5.1% total return for the second quarter of 2022, +11.8% for the last 6 months and +23.5% for the last 12 months.

We are delighted to have outperformed the AREF/MSCI UK All Balanced Open Ended Property Funds Index for the quarter, the year and over three, five and ten years. We have also outperformed in 14 out of the last 15 years.

	3 months	6 months	1 year	3 years (pa)	5 years (pa)	10 years (pa)
<b>The Charities Property Fund</b>	<b>5.1%</b>	<b>11.8%</b>	<b>23.5%</b>	<b>9.3%</b>	<b>8.6%</b>	<b>9.4%</b>
AREF/MSCI UK All Balanced Open Ended Property Funds Index	3.9%	9.8%	23.3%	9.2%	8.1%	8.5%
<b>Relative Performance</b>	<b>+1.2%</b>	<b>+2.0%</b>	<b>+0.2%</b>	<b>+0.1%</b>	<b>+0.5%</b>	<b>+0.9%</b>

*Source: AREF/MSCI UK Quarterly Property Fund Index. NB past performance is not a reliable indicator of future performance. Total return is net of fees and expenses.*

Whilst undoubtedly strong, these returns are delivered against a worrying backdrop – from the continuing tragedy in Ukraine, to rampant fuel, energy and food prices and in turn, surging inflation and the cost-of-living crisis. Stock and bond markets are in reverse, interest rates have risen from 0.1% to 1.25% this year and the 10-year Gilt rate at 2.1%, has tripled since last July.

Debt costs are also increasing, which has unnerved the large leveraged (mainly private equity) investors. This has led to a softening of demand particularly in the white-hot logistics market where prime yields had peaked at close to 3%.

Conversely, demand for real assets and inflation protection continues. Investor appetite for opportunities benefitting from long index linked leases endures, due to the certainty of and guaranteed, income growth. Assets offering a healthy premium to the risk-free rate and some inflation protection, have also held up well.

We have always tried to position the Charities Property Fund defensively, so it offers resilience when confronted by challenging market conditions. Currently the fund offers a high distribution yield of 4.1% (net

of all fees and costs), combined with a high percentage of indexation (44% of all income is index linked) and a long weighted average lease term (WALT) of 11.4 years on average. The vacancy rate is very low at only 3.5% and the fund has no debt.

We currently hold 6% in cash and are continuing to see positive investor inflows. The fund stands at £1.46 billion and provides considerable diversification by sector, geography and number of assets.

We believe all these attributes stem from the quality of the assets held. Whilst quality is subjective, it is this which offers inflation protection, that ensures tenants will sign long leases and that rent collection remains strong. The dividend for the first half of 2022 is robust – it is 9% higher than the same period of 2021, 20% higher than 2020 and 4.5% higher than 2019. The August dividend is forecast to be 1.36 pence per unit - the highest Q2 dividend for 4 years. The unit price is also 19% higher than the pre-pandemic level.

Turning to ESG, we are pleased to report that we have successfully let an industrial unit in Milton Keynes where we pioneered and completed our first operational Net Zero Carbon enabled refurbishment. The EPC rating increased to A+.

We acquired our first school during the quarter and also agreed to acquire and fund the delivery of four specialist supported housing projects across the south of England. A key attraction to us is the significant social impact that comes from providing a home for life for vulnerable young adults with life-long learning difficulties or mild physical disabilities. We will provide a detailed case study in our upcoming Annual Report.

The attached factsheet provides an overview of how the fund is positioned and outlines the purchases and sales completed over the quarter.

Yours sincerely,



**Harry de Ferry Foster MRICS**  
Fund Director



#### **Contact Information**

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Further information can be found about the Fund at our dedicated website: [www.cpfund.co.uk](http://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), 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 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. This letter does not constitute an offer to sell or solicitation of an offer to buy any units in 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. 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 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 June 2022). It is a Common Investment Fund regulated by the Charity Commission and helps c.1,500 charities to invest in commercial real estate in an ethical, responsible and tax-efficient way. The Fund has a strong focus on ESG and looks to improve the environmental credentials of the assets it holds and favours socially beneficial occupiers. 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 - 30 JUNE 2022

- Fund size £1.46 billion
- No debt
- Well diversified and balanced portfolio
- 117 properties and 250 tenants
- Negligible exposure to the high street and no shopping centres
- Portfolio weighted to London and the South of England
- High yielding (4.6% gross and 4.0% net of costs)
- Low vacancy rate (3.5% versus MSCI at 10%)
- Strong covenants (78% rated low or negligible risk)
- Long average unexpired lease term of 11.4 years to expiry (9.2 years to break)
- 44% of income benefits from fixed or index linked rental increases, two thirds are linked to RPI

The Fund total return for Q2 2022 was 5.1% compared to the AREF/MSCI UK All Balanced Property Fund index of 3.9%. Over the last 12 months the Fund produced 23.5% against the Index which returned 23.3%.

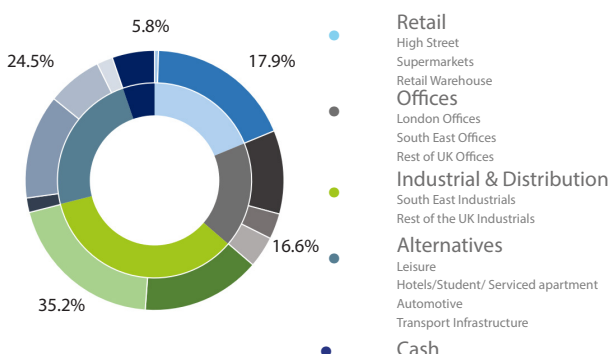
## PURCHASES

The Fund made three acquisitions during the quarter, investing £36 million. The largest asset at £33 million 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'Overbroeck's 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 (RPI is currently running at 11.6%). 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 accommodation 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.

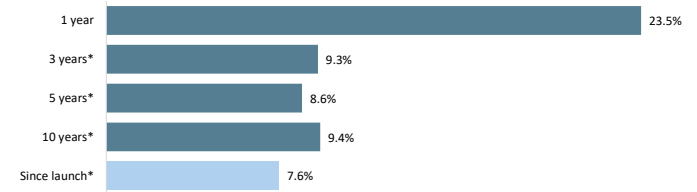


## CPF PORTFOLIO JUNE 2022



Source: Savills Investment Management, June 2022

## FUND PERFORMANCE



\*annualised

Source: Savills Investment Management, MSCI (June 2022)

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 8.6% per annum, against the index of 8.1% per annum. Over 10 years the Fund returned 9.4% per annum, ahead of the index at 8.5% per annum (source: MSCI).

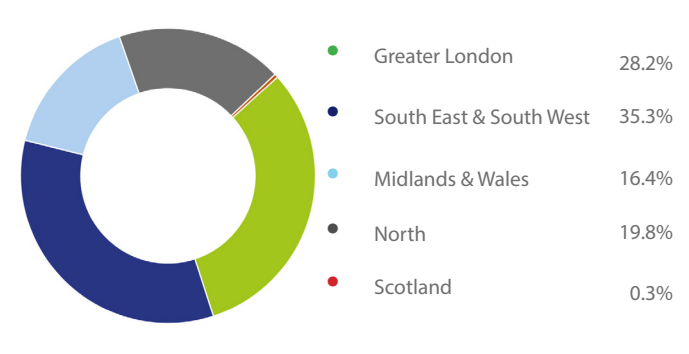
## SALES

The fund sold three assets over the quarter, totaling £5 million, all of which were High Street retail assets located in Cardiff, Cheltenham and Cobham. We have always had a limited exposure to this sub sector, but remained content holding a handful of investments in strong towns and cities that bucked the wider trend. Having executed asset management on these three properties and fulfilled the business plan, we took the opportunity to bring them forward for sale. We now only have two High Street holdings remaining – equivalent to just 0.1% of the total portfolio weighting.

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 £1.675 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.



## GEOGRAPHICAL WEIGHTINGS



Source: Savills Investment Management, June 2022



## FUND INFORMATION - (AS AT 30 JUNE 2022)

Launch date	September 2000
Fund Size	£1.46 billion
No. of investors	1,500
Historic distribution yield	3.9%*
Prospective distribution yield	4.3%**
Fund costs (TER)	0.62% per annum
Unit price	NAV - 149.48 pence
	Bid - 147.38 pence
	Offer - 152.10 pence
Bid spread	1.45%
Offer spread	1.55%
SEDOL	0208075
Next distribution date	15 August 2022
Last distribution rate	1.43 pence per unit
Next dealing date	30 September 2022#

\* 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

Travelodge Hotels Limited	6.3%
Macmillan Publishers International Limited	3.8%
Tesco Stores Limited	3.7%
Sytner Properties Limited (surety: Sytner Group Limited)	3.7%
Jurys Hotel Management (UK) Limited	2.9%
Total (across 11 locations)	20.4%

## 10 LARGEST ASSETS

London EC1 - The Smithson, 6 Briset Street, Farringdon	5.6%
London SE7 - Brocklebank Retail Park, Greenwich	4.3%
Brighton - Jurys Inn Hotel, Stroudley Road	3.1%
Gateshead - Metro Park West	3.0%
London SW11 - Travelodge, Battersea	2.9%
Cambridge - Travelodge, Newmarket Road	2.2%
Bury St Edmunds - SP147, Suffolk Park	2.1%
Tamworth - Emperor Point	2.0%
Epsom - Epsom Trade Park	2.0%
Hayes - Caxton Point	1.9%
Total	28.9%

Source: Savills Investment Management June 2022

## ASSET MANAGEMENT

The most significant transaction of the quarter was two new lettings at Birmingham Business Park. 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 Valuers 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%.



Birmingham

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.

We are also delighted to report we have 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. The EPC rating increased to A+. The rent achieved of £700K pa (£8.25 per sq ft) is 34% ahead of the ERV of £520K pa (£6 per sq ft). The valuation of this property has increased by £4.7 million, +64%, since this time last year.



Milton Keynes

### Risk Warning

This document is a financial promotion and is issued for information purposes only. It does not constitute the provision of financial, investment or other professional advice. Savills Investment Management (UK) Limited have not considered the suitability of this investment against your individual needs and risk tolerance. To ensure you understand whether our product is suitable, please read both the Fund Factsheet document and the Scheme Particulars. We strongly recommend you seek independent professional advice prior to investing. Investors should consider the following risk factors identified as specific to the Fund before investing: Counterparty/Tenant/Credit Risk (financial institution/tenants may not pay), Market Risk (investment value affected by market conditions), Operational Risk (general operational risks), Expiry/Maturity Profile (timing of maturity of tenancies), Liquidity Risk (investment in non-readily realisable assets), Interest Rate risk (changes to interest rate affecting income), Concentration Risk (need for diversification and suitability of investment), Business Risk (possibility of lower than anticipated profits). Please see the Fund Scheme Particulars for further details.

### 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).