

# Lewisham Borough Council

## Schroder Real Estate Capital Partners

**Thursday 19th February 2015**

Representing Schroders:



**Anthony Doherty**  
Real Estate Fund Manager  
Tel: 020 7658 6010  
Email: [anthony.doherty@schroders.com](mailto:anthony.doherty@schroders.com)



**Graeme Rutter**  
Head of Schroder Real Estate Capital Partners  
Tel: 020 7658 6768  
Email: [graeme.rutter@schroders.com](mailto:graeme.rutter@schroders.com)



**Geoff Day**  
Client Director  
Tel: 020 7658 3399  
Email: [geoffrey.day@schroders.com](mailto:geoffrey.day@schroders.com)

For professional investors only. This material is not suitable for retail clients

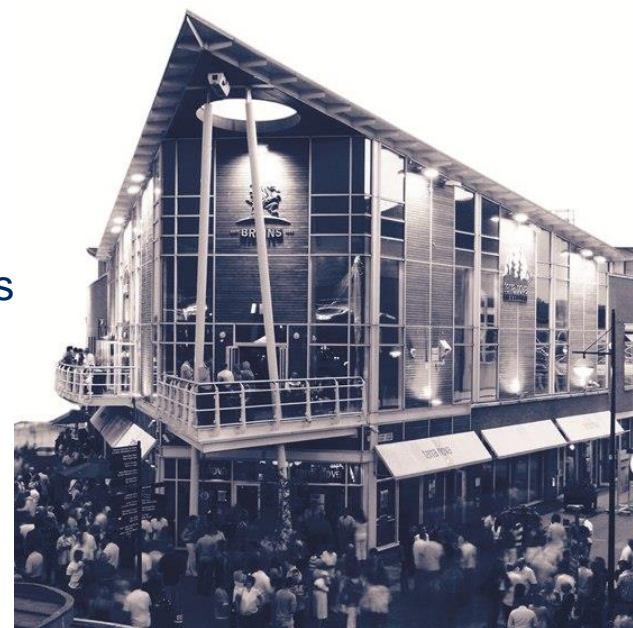


**Schroders**

# Business overview

## Schroder Real Estate Capital Partners

- Managed indirect real estate mandates since 1997
- £3.1 billion under management as at 30 September 2014
- £512 million traded in 2014, c. 2/3 via the secondary market
- Average purchase cost over five years +1.4% (to December 2014)
- 23 segregated clients
- Two closed-ended continental European funds
- Two open-ended UK funds
- Six exclusive Schroder Real Estate Capital Partners client funds



Source: Schroders, September 2014

# Business overview

## Team

### Schroder Real Estate Capital Partners

Team	Position	Responsibility
Graeme Rutter (20 years)	Head of Schroder Real Estate Capital Partners	Business management, portfolio management & strategy
Jennifer Murray (20 years)	Portfolio Manager	Portfolio management & strategy, fund monitoring
Tony Doherty (14 years)	Portfolio Manager	Portfolio management & strategy, product sourcing & creation
Keeran Kang (7 years)	Portfolio Manager	Portfolio management & strategy, fund monitoring
Patrick Bone (8 years)	Analyst	Fund monitoring & analysis, portfolio modelling, risk analysis
Gianlorenzo Paoella (7 years)	Analyst	Fund monitoring & analysis, portfolio modelling, risk analysis
Marsha Reid (24 years)*	Fund Manager Assistant	Trade processing and risk monitoring
Shamaan Malik (9 years)*	Fund Manager Assistant	Trade processing and risk monitoring
Dina Parmar (12 years)	Executive Assistant	Team support

Source: Schroders, January 2015. Numbers in brackets indicate years of experience

\* Real Estate Investment Support

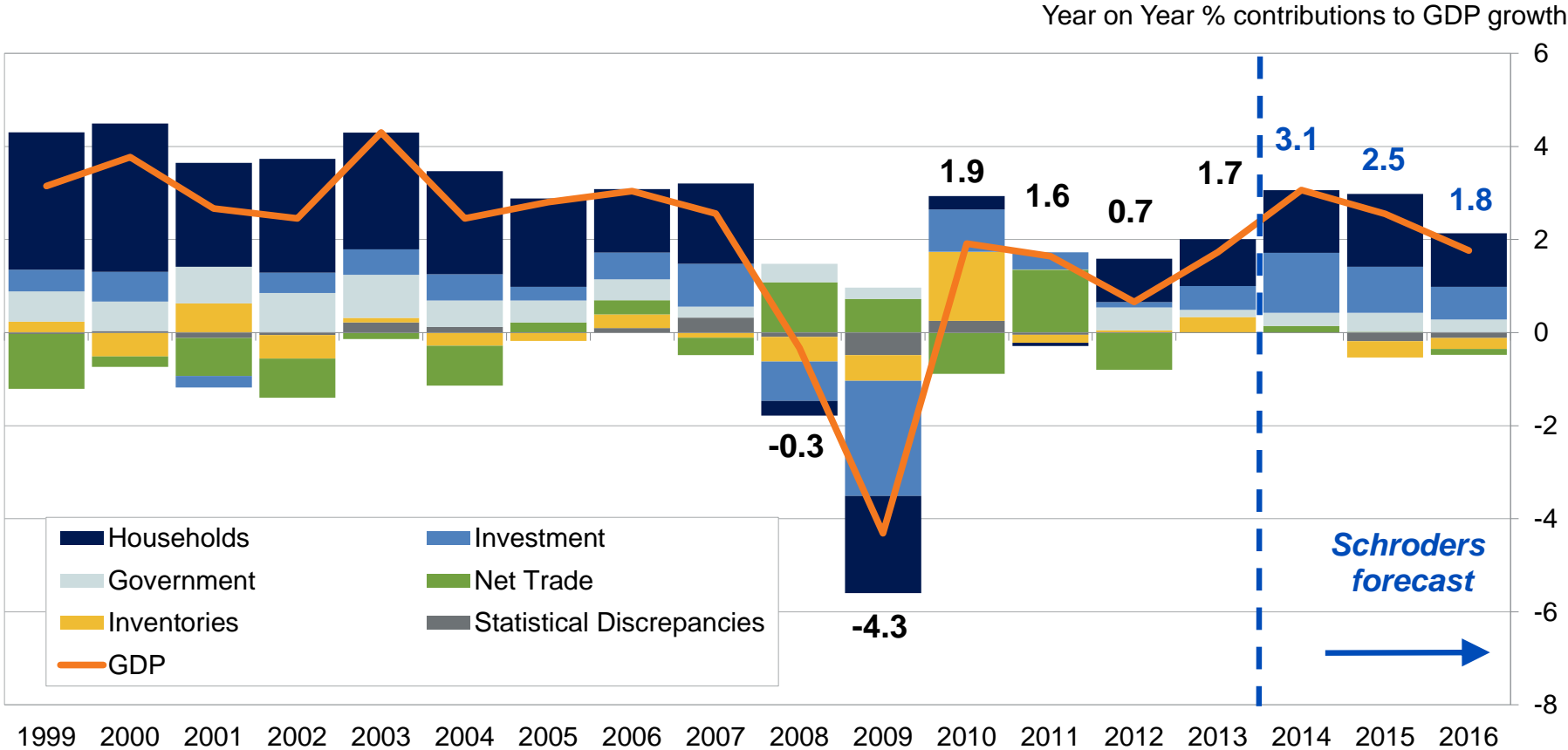
# Market overview



**Schroders**

# Schroders UK economic forecast

Resumption of austerity will slow growth in 2016

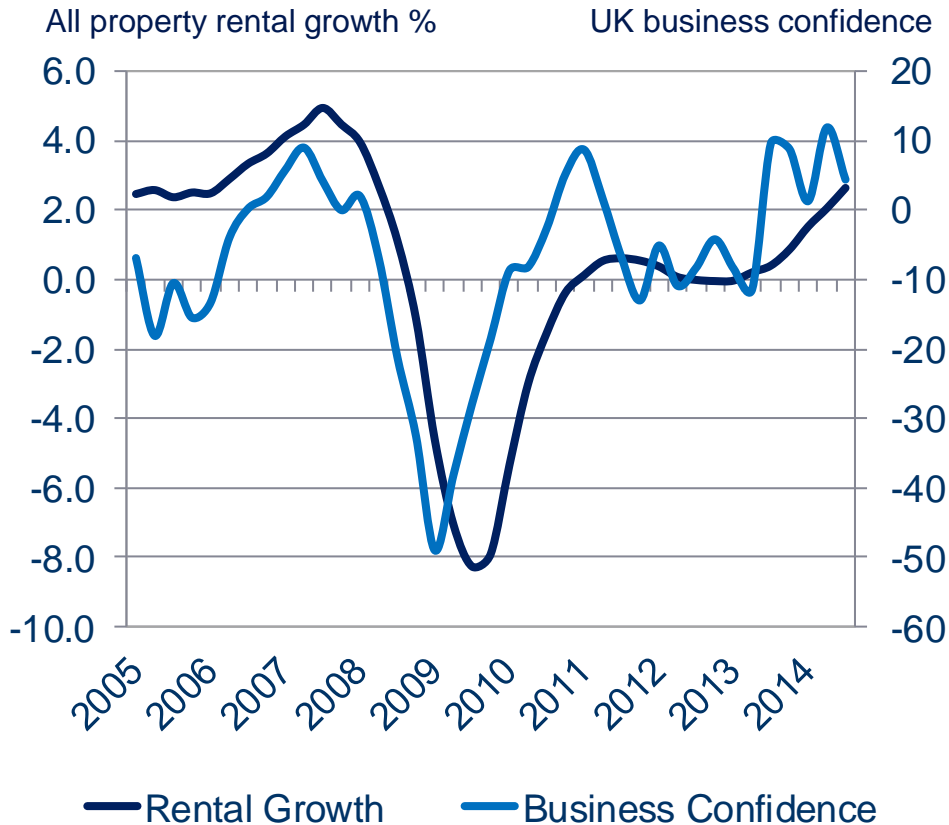


Source: Schroders November 2014 Please see the forecast risk warning on the important information slide.

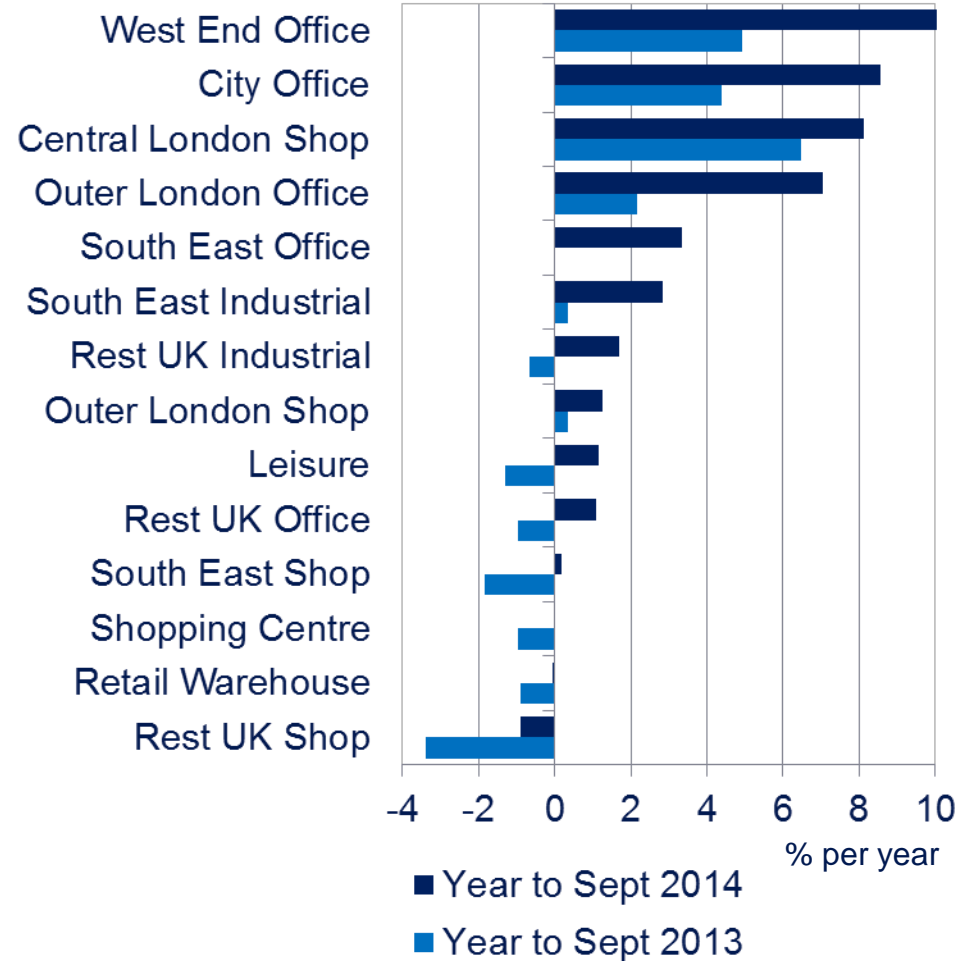
# Rental value growth

Stronger tenant demand is now lifting rental values outside London

## Business confidence and rental growth



## Rental value growth by segment



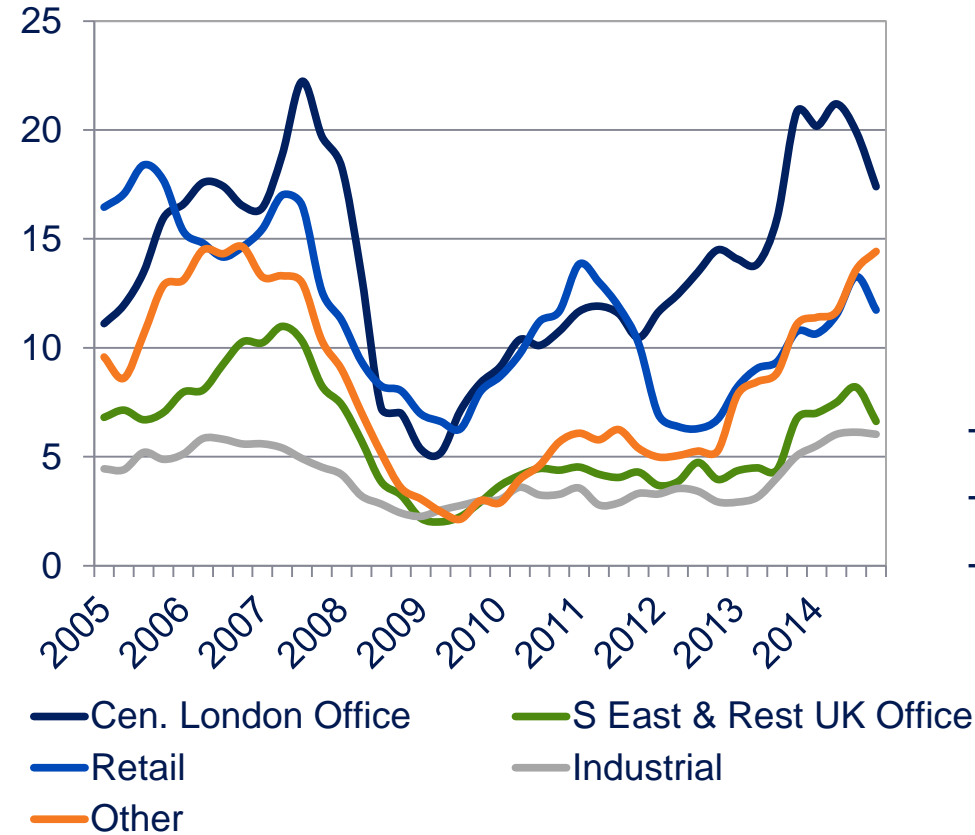
Source: IPD, ONS. October 2014.

# Property investment market

Broad recovery in liquidity, driven by institutions and foreign investors

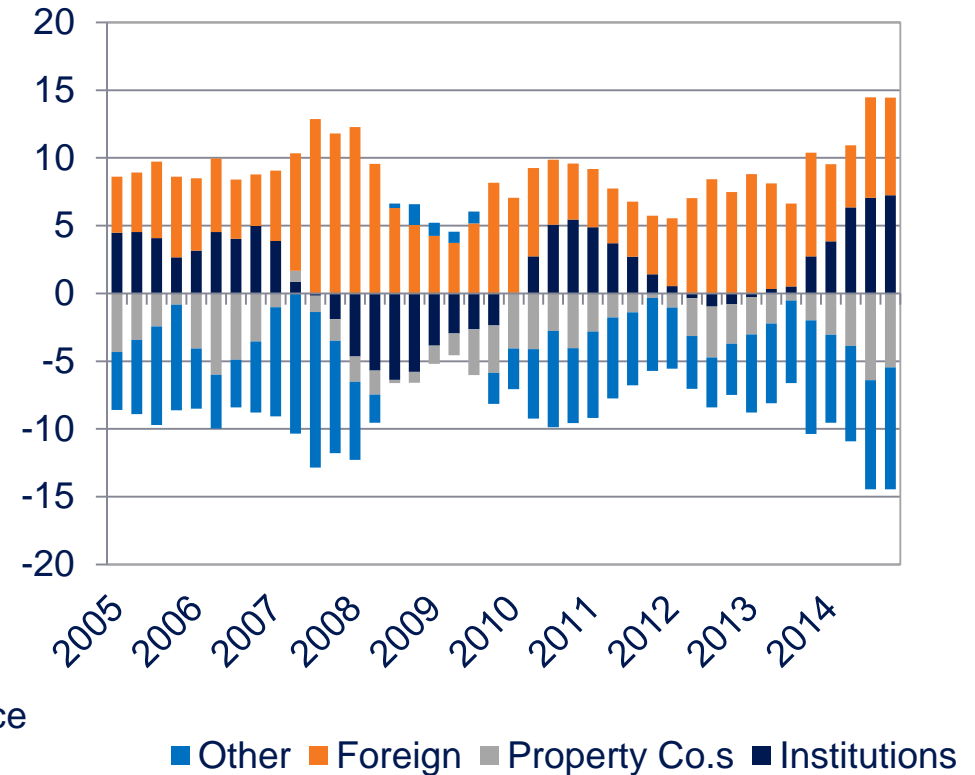
## Transactions by broad sector

£ billion, 4 quarter moving total



## Net trading by investor

£ billion, 4 quarter moving total



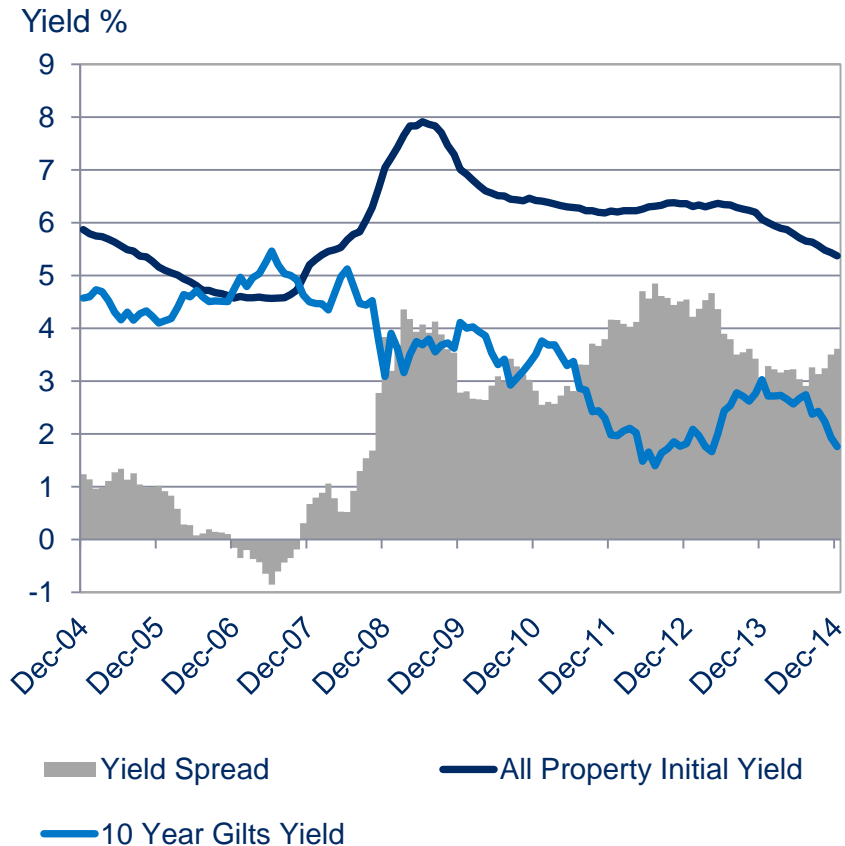
Source: Property Databank. , January 2015. Net trading = purchases – sales.

Other investors included occupiers and banks. Note that late reporting means that figures for the last two quarters are often subsequently revised up.

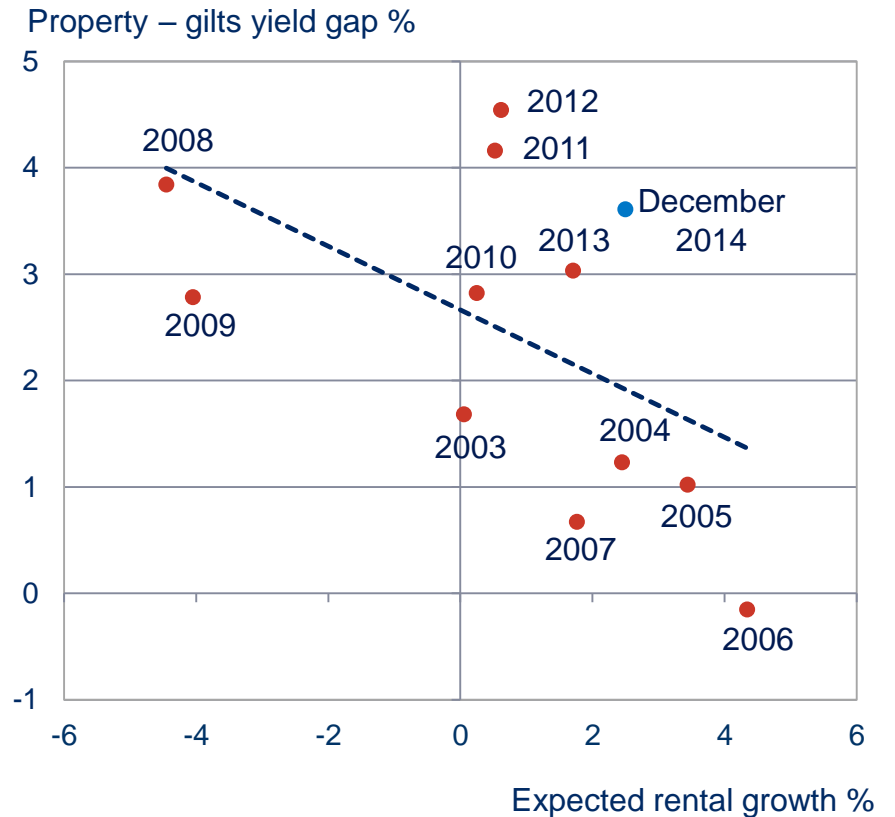
# Property and gilts yields

Pricing looks sensible. Rental growth should temper impact of rising gilt yields

## All property initial yield vs. 10 year gilts



## Yield spread and rental expectations



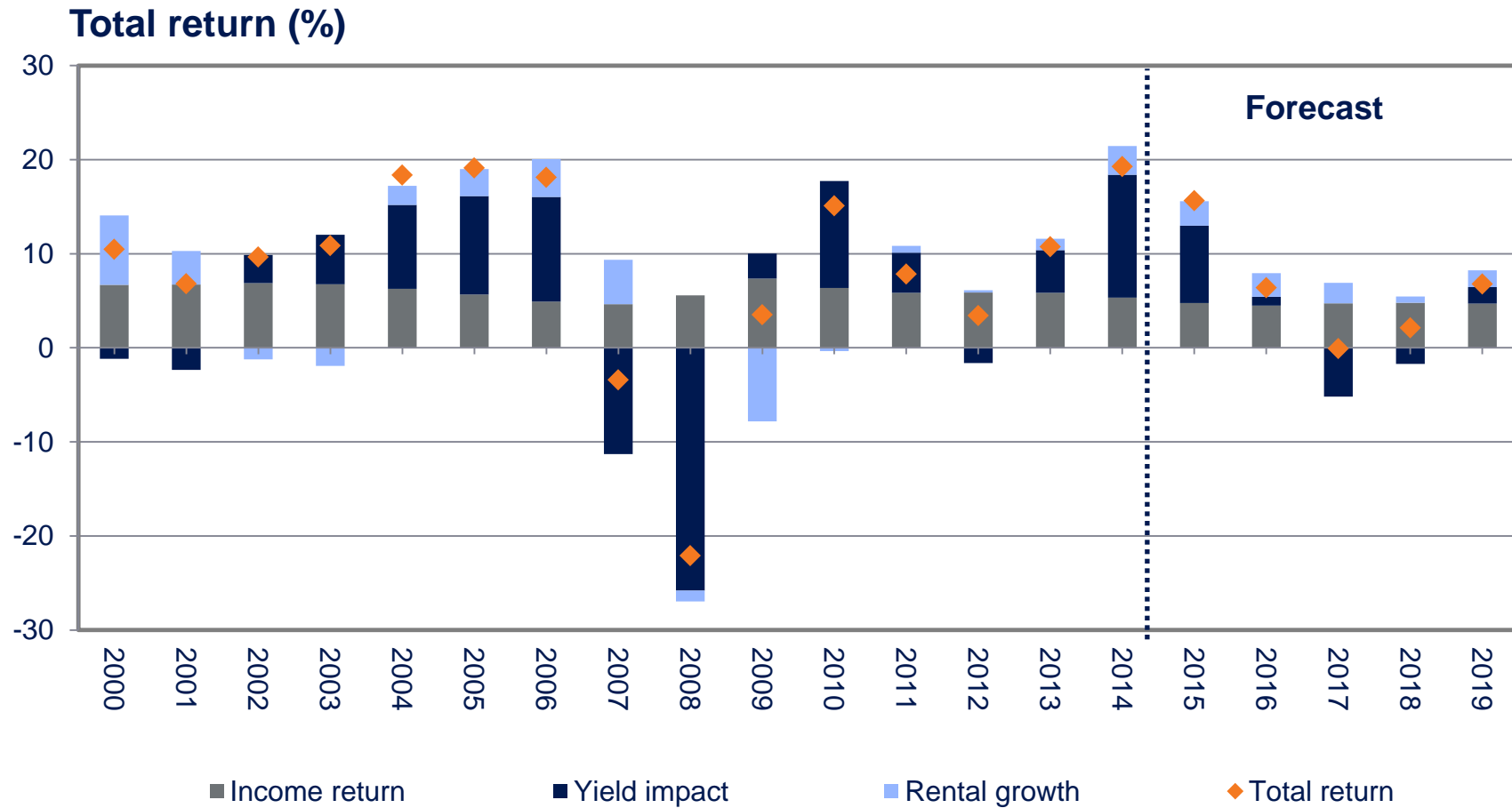
Source: Datastream, IPD, IPF Consensus Forecasts, Schroders. December 2014.

Note. Expected rental growth is the average of the last 12 months and forecast rental growth over for the next 12 months.



# Schroder Summer 2014 forecasts

Attractive returns over the medium term, with some short term volatility



# Portfolio

**Overview**

**Performance to Q4 2014**

**Investment activity**

**Sector weightings**

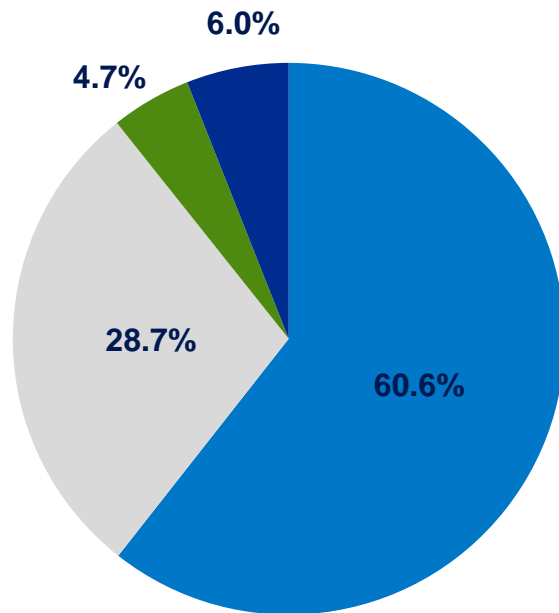


**Schroders**

# Portfolio

## Lewisham Pension Fund, December 2014

### Breakdown by style and region



- Balanced - UK
- Specialist - UK
- Specialist - Europe
- Cash

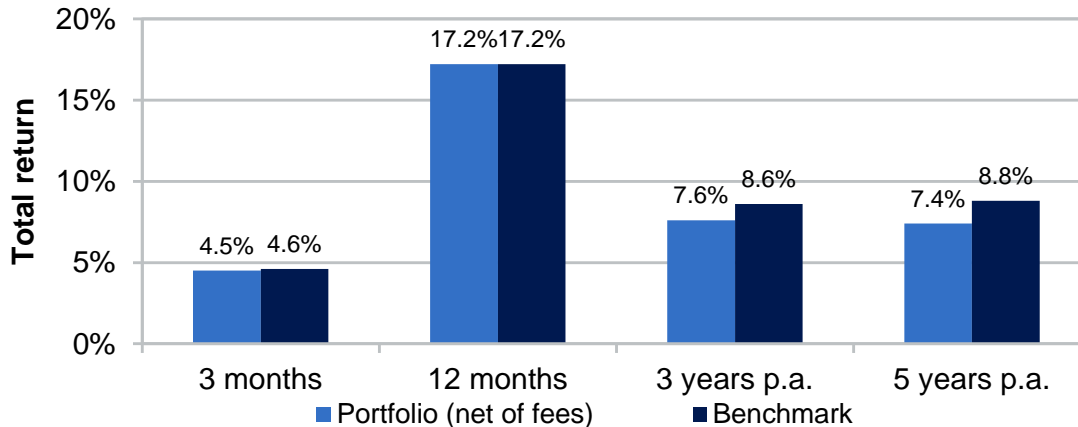
### Portfolio statistics

Portfolio valuation	£87,998,718
Number of investments	14 UK 1 continental Europe
Breakdown by region	89.3% UK 4.7% continental Europe 6.0% cash
Portfolio cash	£5,241,804
Purchases post quarter-end	£2,645,741
Portfolio undrawn commitments	£2,540,603
Portfolio cash net of all commitments	£55,460

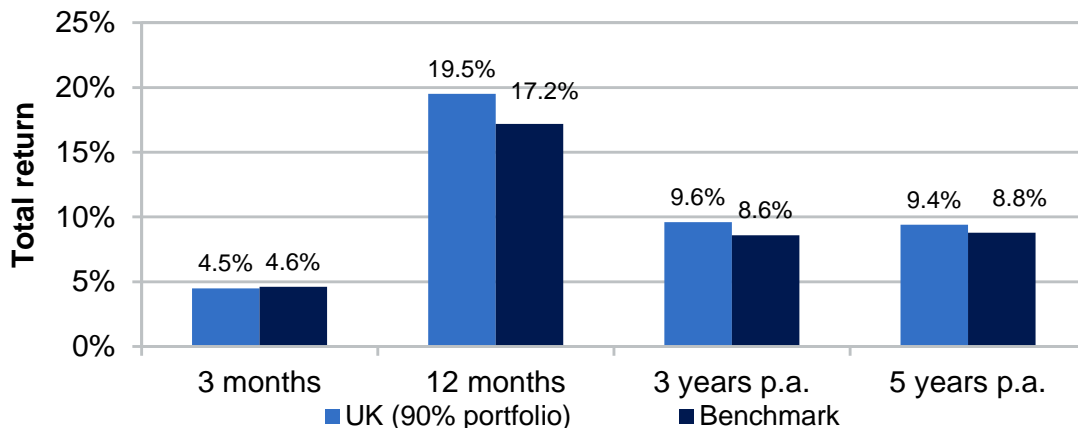
# Portfolio

## Portfolio total returns versus benchmark, December 2014

### Total Portfolio



### UK Portfolio (90% of value)



### Objective

To outperform the Benchmark<sup>1</sup> by 0.75% net of fees over three year rolling periods

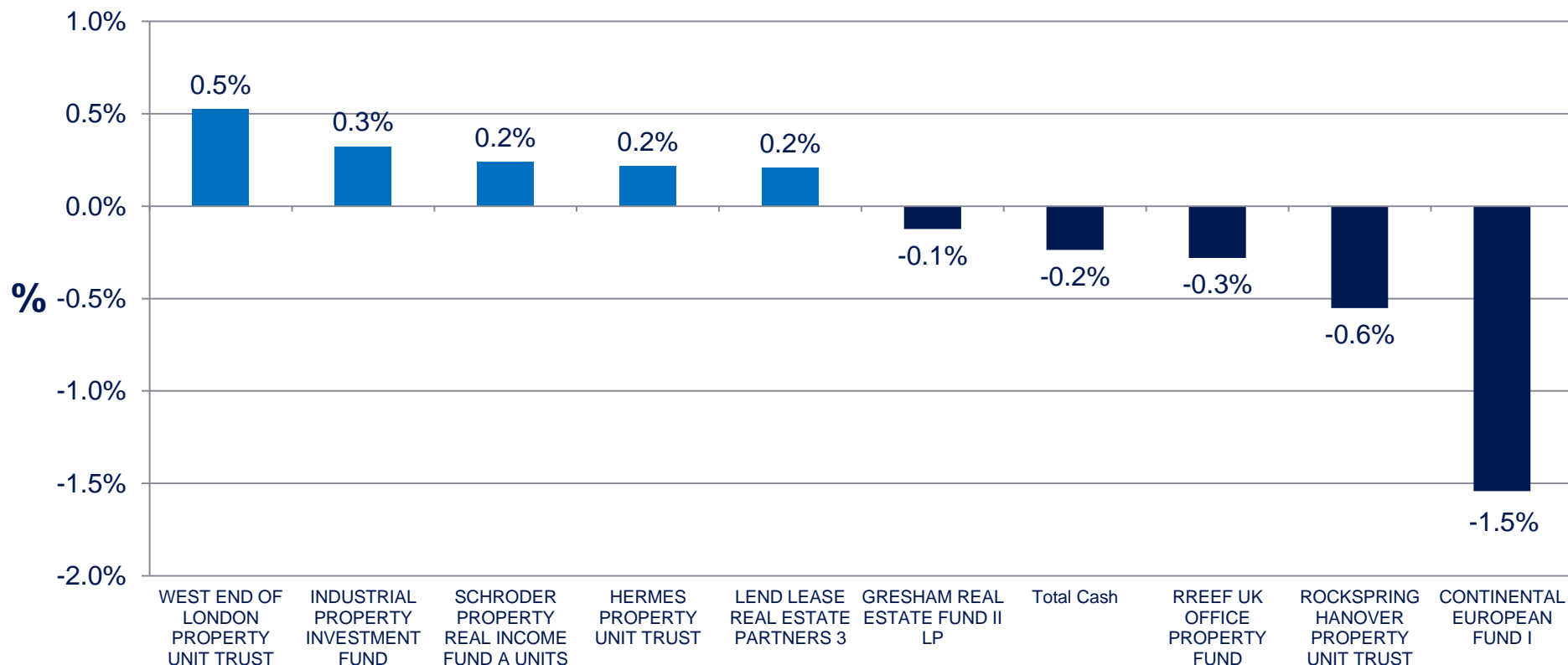
### Key messages

- Absolute returns are strong.
- The portfolio returned 4.5% over the quarterly reporting period, slightly below the benchmark (4.6%).
- The UK portfolio (90% by value) is outperforming the benchmark over one, three and five years.
- The European allocation (5% portfolio value) is diluting aggregate portfolio returns relative to the UK-only benchmark. This is exacerbated by a weak €/£.

# Portfolio

Performance attribution, 3 years to 31 December 2014

## Total return attribution relative to benchmark\* by top and bottom five contributors



\*Benchmark is AREF/IPD UK Pooled Property Fund Indices All Balanced Funds Weighted Average. Attribution is presented gross of fees.

Source: Schroders and AREF/IPD UK Pooled Property Fund Indices, 31 December 2014. Past Performance is not a guide to future performance and may not be repeated.

Please refer to the Important Information at the back of this document regarding past performance.

# Portfolio - Continental Europe

## Investment rationale: Continental European allocation 2006

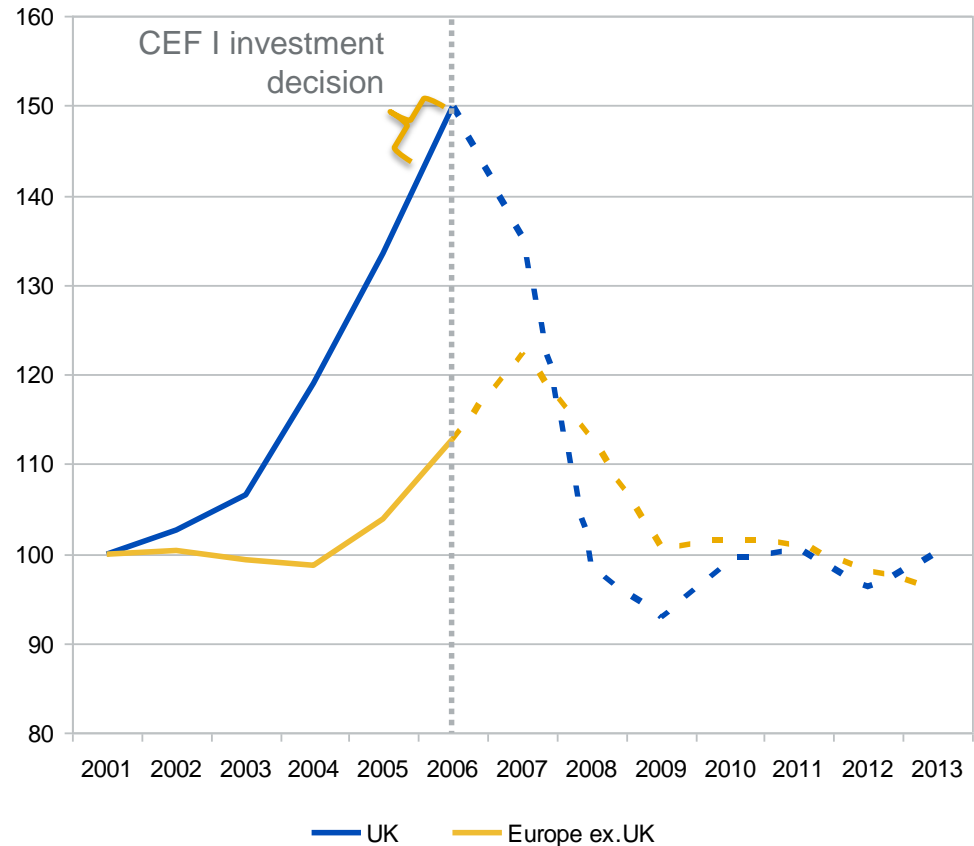
### Background

- Committed 10% of portfolio value to continental Europe between in December 2006
- No equity committed to continental Europe since then
- Invested into Continental European Fund I (CEF I): closed ended fund with a 12 year life to 2018

### Rationale

- UK capital values increased by more than 35% in three years to December 2006
- Continental Europe offered potential to enhance portfolio returns; and
- To diversify the risks of UK property

### Capital Values: UK and Continental Europe



# Continental European Fund I

## Performance - 31 December 2014

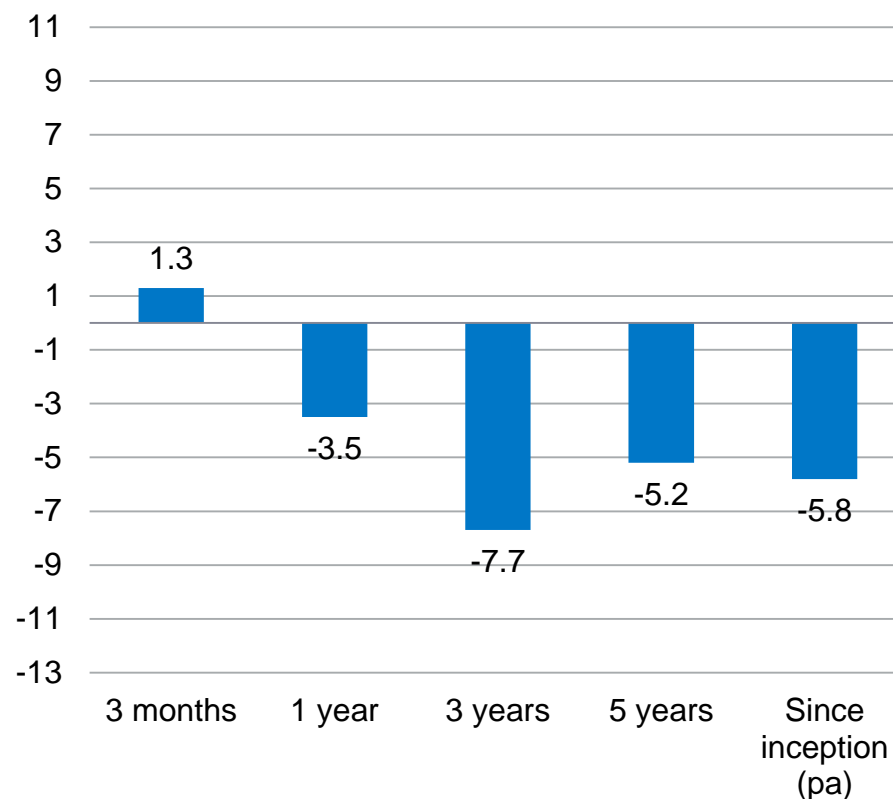
### Positive drivers (12m)

- Sale of IRUS European Retail Property Fund at a premium to valuation
- Nordic investments post 2009

### Negative drivers (12m)

- Earliest investments including:
  - CG Malls (Portuguese and Spanish retail)
  - Portfolios with secondary assets

### IRR % to 31 December 2014 (in euro)

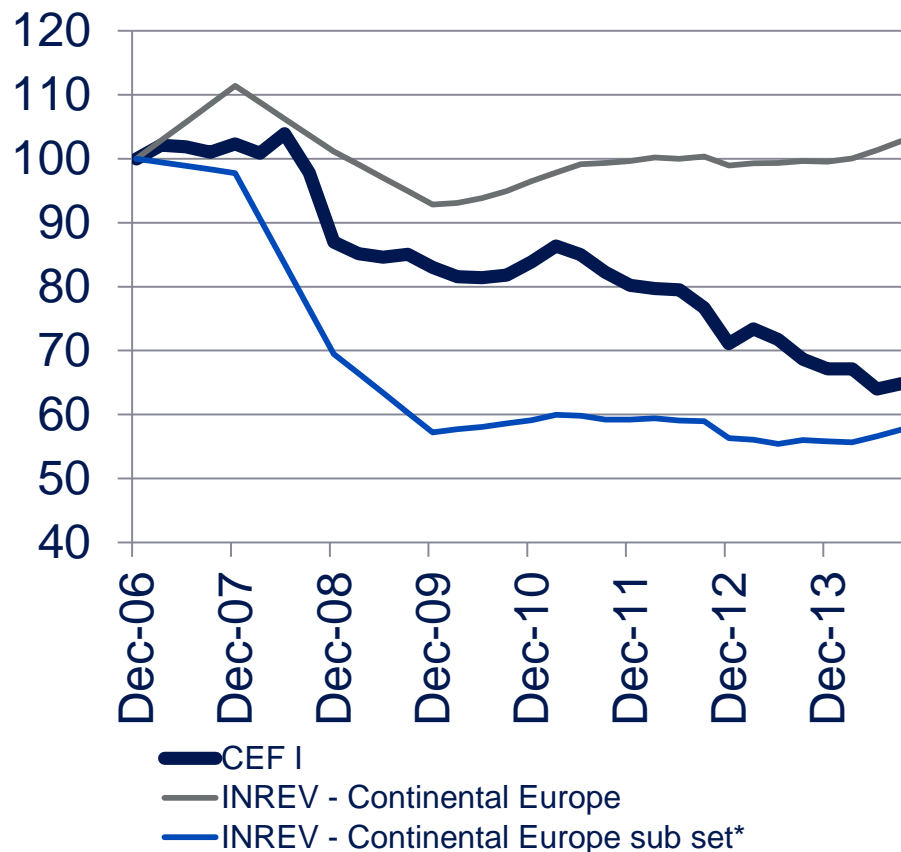


Source: Schroders, 31 December 2014. Note: 1 units, Inception date 18 December 2006. Performance calculated (net of fees) on an IRR basis in Euros. Note: Returns for periods of 1 year or more are calculated on an IRR basis. Returns since inception are also calculated on an IRR basis. Returns for periods of less than one year are calculated on an IRR basis, but de-annualised.

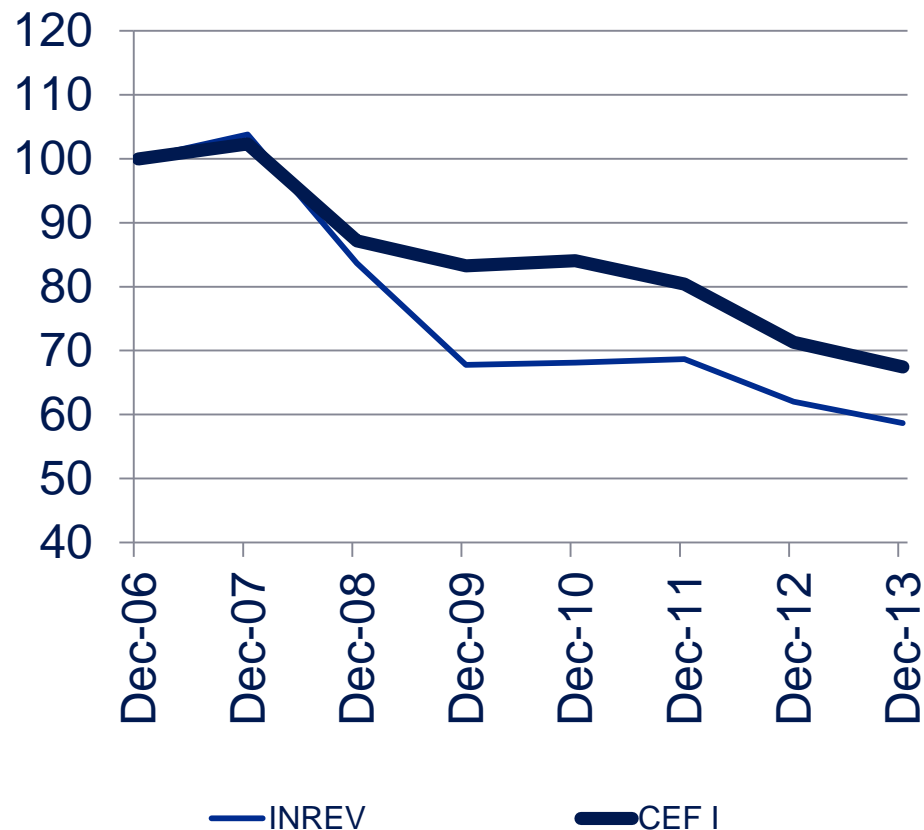
# Continental European Fund I

Performance - 31 December 2014 – in context

**Total return vs INREV Quarterly Index – Continental Europe**



**Total return vs INREV Fund of Funds Index – Europe**














Source: Schroders, INREV Quarterly Index, IPD Pan-European Property Funds Index, 31 December 2014. All Indices are indexed to 31 December 2006. \*INREV – Continental Europe sub set shows all funds with a vintage year of 2006-2008 (in line with CEF I's investments) with multi-country and sector strategies.



# Why Schroder Real Estate Capital Partners?

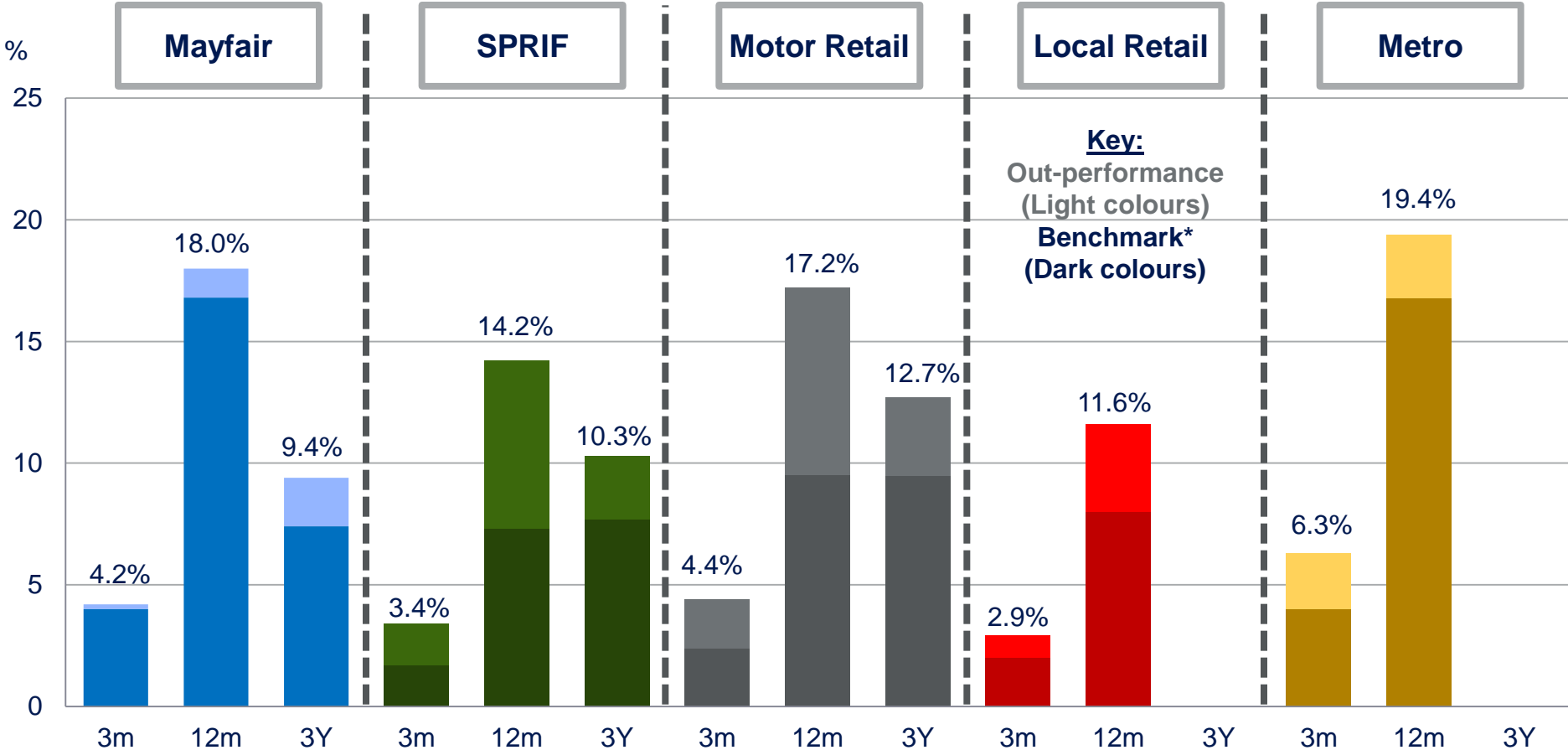
## Partnerships

	Mayfair Capital PUT	Schroder Property Real Income Fund	Motor Retail PUT	Local Retail Fund	Metro PUT	Multi-Let Industrial PUT
						
Launched:	June 2010	March 2011	March 2011	March 2012	August 2013	June 2014
Structure:	Open-ended	Open-ended	Closed-ended	Open-ended	Open-ended	Open-ended
Style:	Core	Core+	Core+	Core+	Core	Core +
Fund NAV:	£147.3m	£210.5m	£100.8m	£79.0m	£96.8m	£16.8m
Anticipated Size:	£250m	£300m	£125m	£150m	£250m	£200m
Leverage (LTGAV):	0%	20.6%	0%	0%	0%	0%
Assets:	Diversified	Inflation protected	Car Showrooms	Convenience Retail	Diversified	Multi-let industrials
Property advisor:		Various				
Performance objective:	Outperformance of the UK property market / 5% net distribution yield	RPI +5% pa over rolling 7 year periods	8-10% IRR over the 10 year life of the Trust	8% pa total returns / 5% net distribution yield	Outperformance of the UK property market +0.5% over rolling three year periods / 5% net distribution yield	8% pa total returns

Source: Schroders, 31 December 2014

# Partnership performance

## Out-performing investment objectives



**Benchmarks\*:**

- Mayfair: AREF/IPD UK Quarterly Property Fund Index – All Balanced Funds weighted average
- SPRIF: Retail Price Index + 5.0%
- Motor Retail: Absolute return of 9.5% per annum
- Local Retail: Absolute return of 8.0% per annum
- Metro: AREF/IPD UK Quarterly Property Fund Index – All Balanced Funds weighted average

Source: Schroders, 31 October 2014

# Portfolio activity

## Allocating to higher yielding assets with sustainable income streams

### Industrials:

- Higher yielding sector
- Positive supply/demand dynamics. Supply constrained sector benefitting from increase in traditional manufacturing as well as logistics demand
- Strong rental growth driving outperformance



Rochester Airport Industrial Estate

### Alternatives:

- Accessing resilient income streams in sectors where rental growth is less correlated with economic cycle
- Attractive and often inflation linked income streams
- Exposures include care homes, student accommodation, motor retail and leisure



Car dealership portfolio

# Strategy

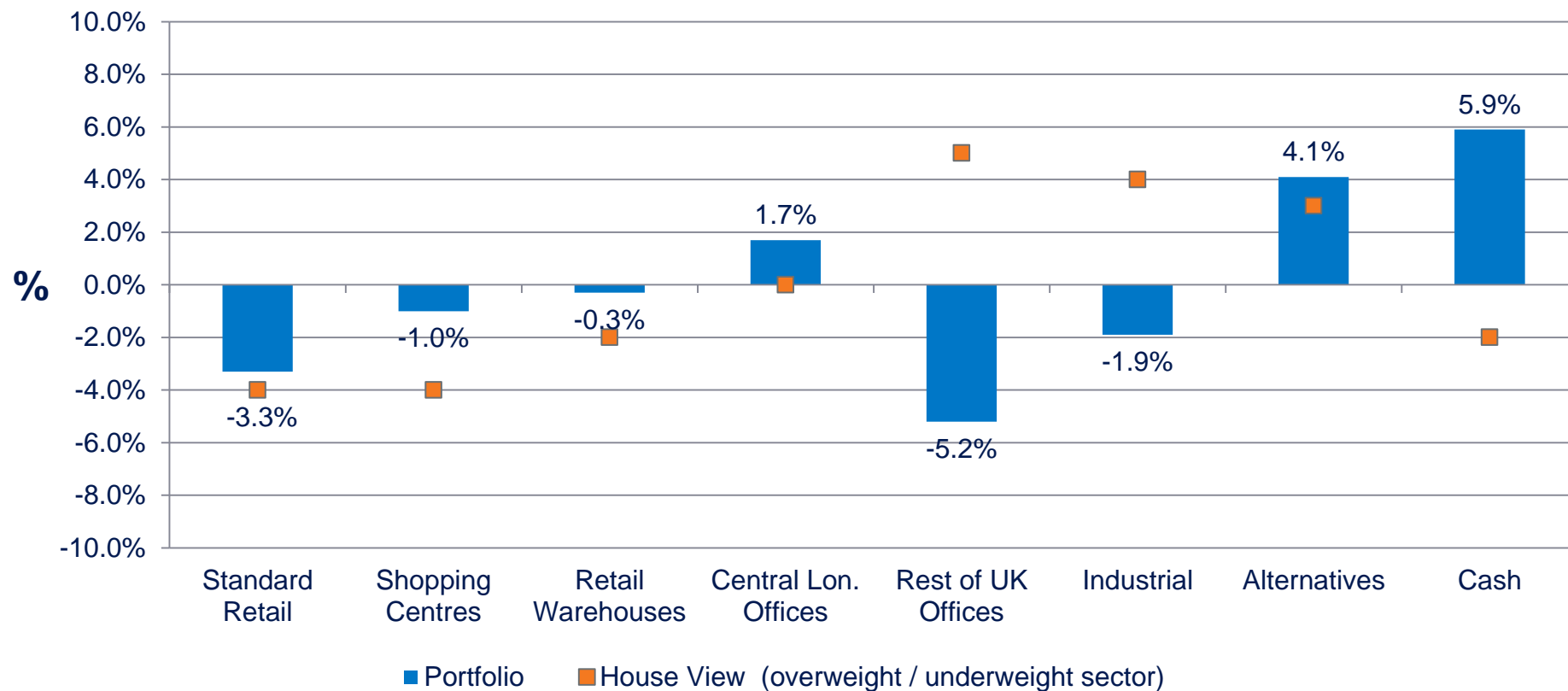


**Schroders**

# Strategy

## UK sector weightings

### UK sector weightings relative to benchmark\*



Data subject to rounding. \*Benchmark AREF/IPD UK Pooled Property Fund Indices – All Balanced Funds Weighted Average.  
Source: Schroders, IPD, 31 December 2014

---

# Strategy

31 December 2014

---

- We are reducing exposure to central London offices, with a view to locking in the positive returns received from this sector over the past three years.
- We favour industrials and alternative sectors where yields are attractive and supply/demand fundamentals are positive.
- We remain focussed on reducing exposure to continental Europe, subject to pricing and liquidity.

# Appendices

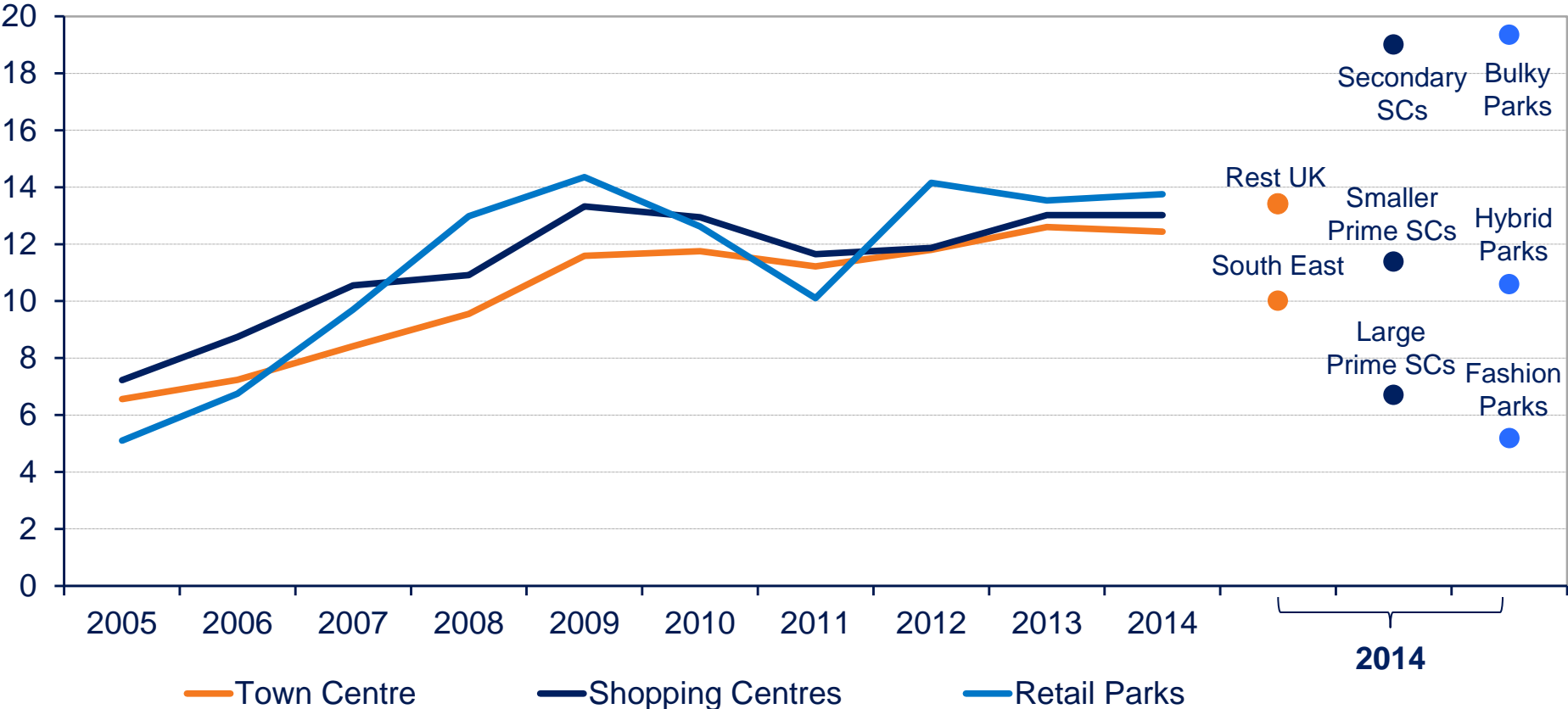


**Schroders**

# Retail vacancy rates

On-line diversion and excess development has polarised sector

% of units vacant, by number



Source: PMA. September 2014.

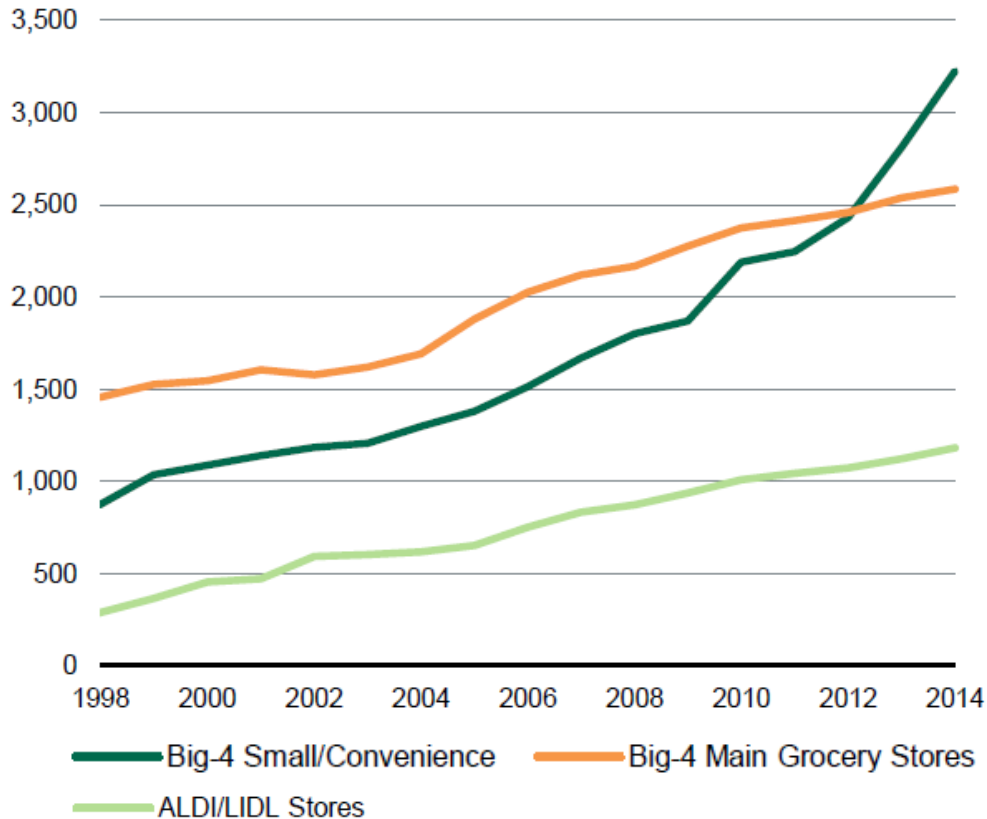


# Food retailing is relatively internet immune

## Demographic and social changes are favouring smaller stores

### Major Grocery Retailers

Number of branches



- People are shopping more frequently in convenience stores close to their home, or at transport hubs. This is because:
  - Households have fewer people.
  - People are buying more ready meals.
  - More women are working.
  - Higher petrol costs make driving to hypermarkets more expensive.
- Investment case:
  - Strong covenants
  - Tenants unlikely to leave – seek lease extensions at open market rent
  - Small lot sizes, relatively liquid
  - Affordable rents: typically below £20 per square foot and 7% of turnover

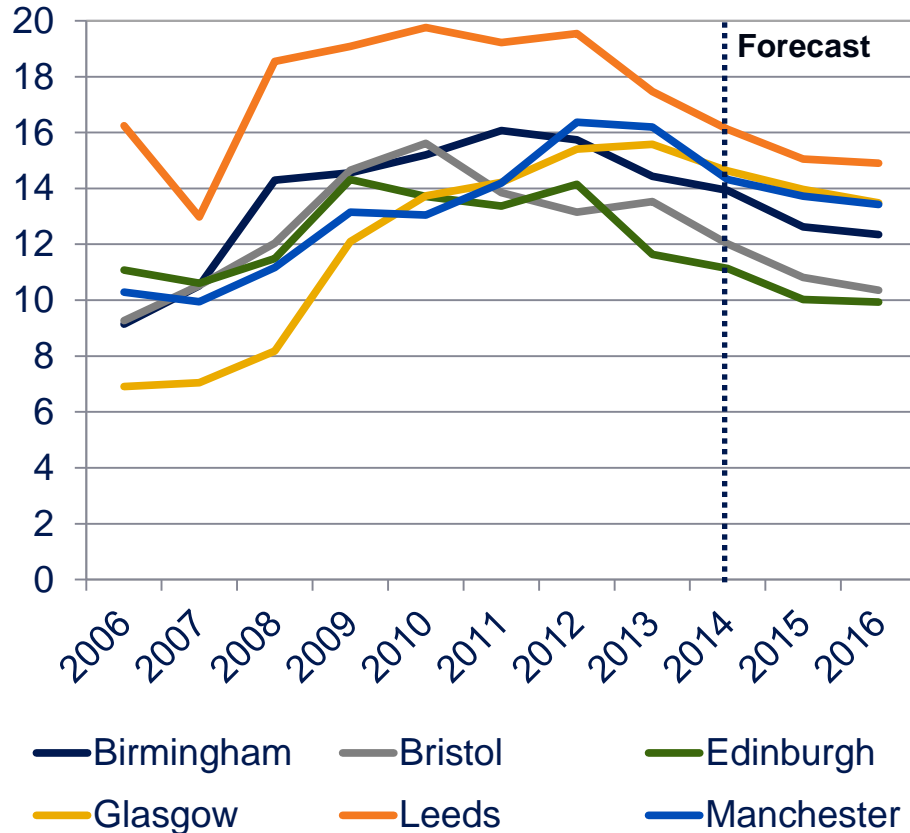
Source: Retail Locations. October 2014

# Major regional office markets

Private sector demand is recovering, but high vacancy persists in several cities

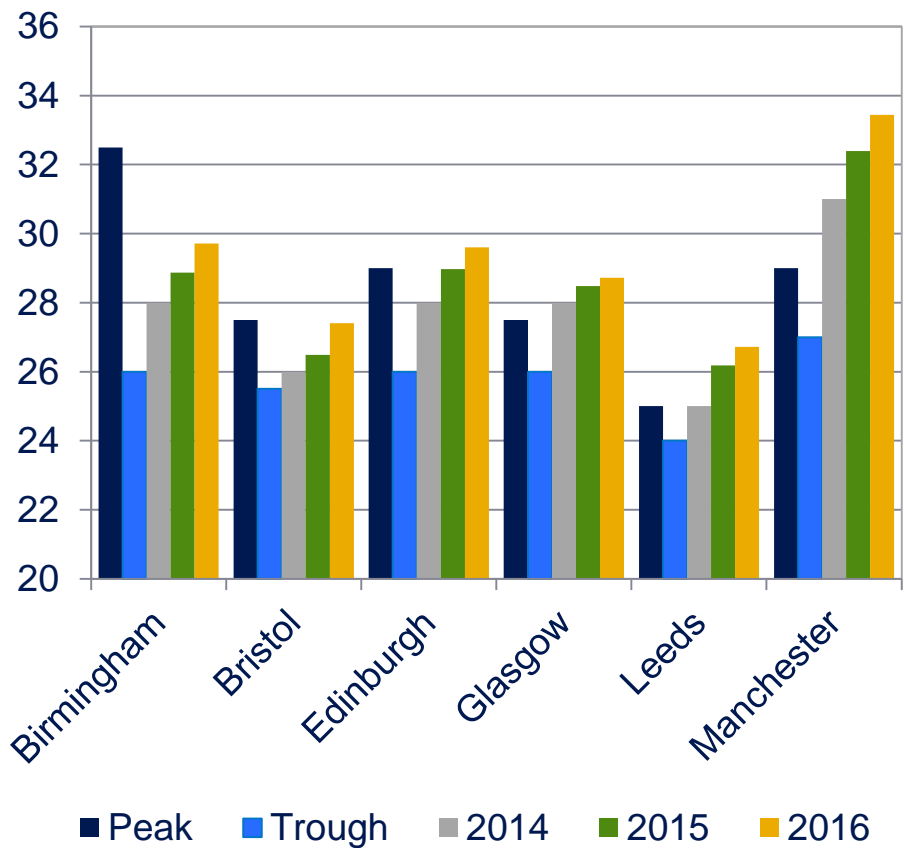
## Vacancy rates

% of floorspace



## Prime office rents

£ per ft<sup>2</sup>



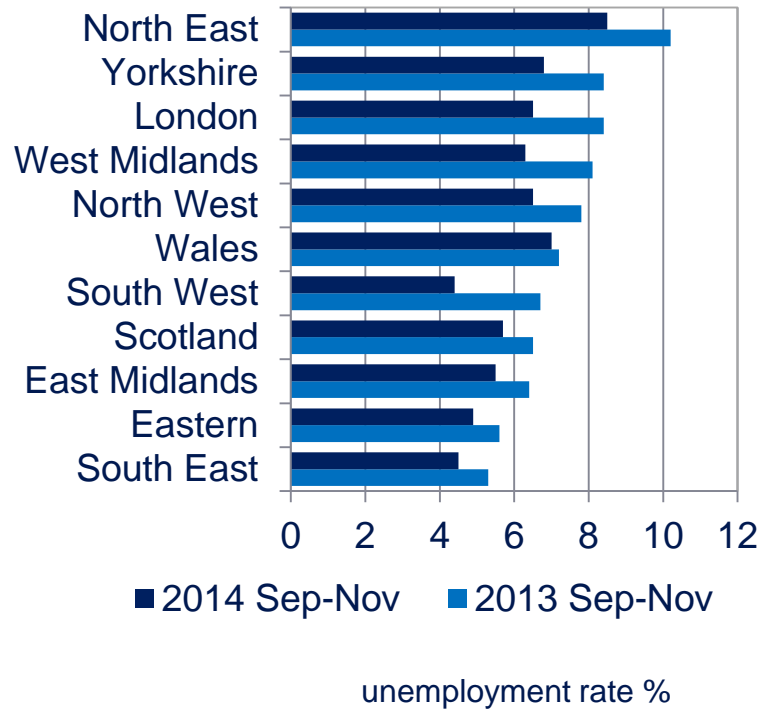
Source: PMA. September 2014. Data include city centres and out of town office parks.

Note. The forecasts should be regarded as illustrative of trends. Actual figures will differ from forecasts. Please see Important Information regarding forecasts.

# Regional industrial rents

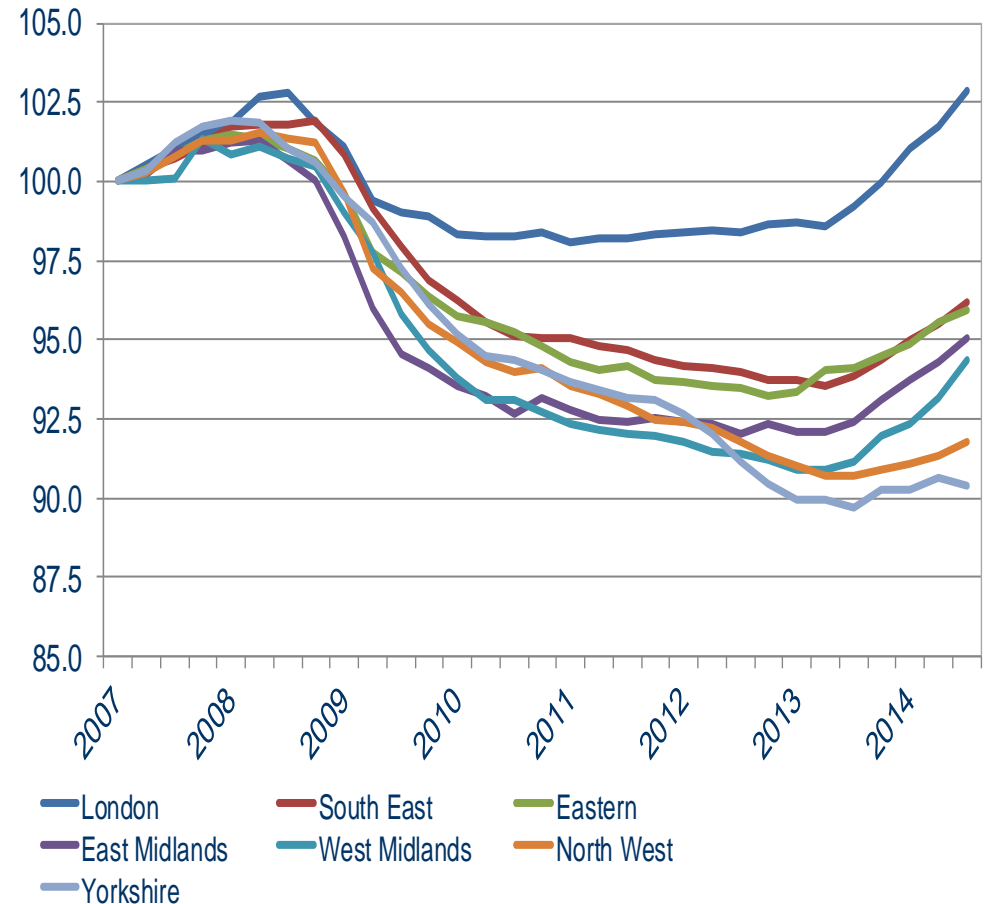
Recovery has rippled out from London to the South and Midlands

## Unemployment by region



## Industrial rental growth by region

Rental values 2007 Q1 = 100



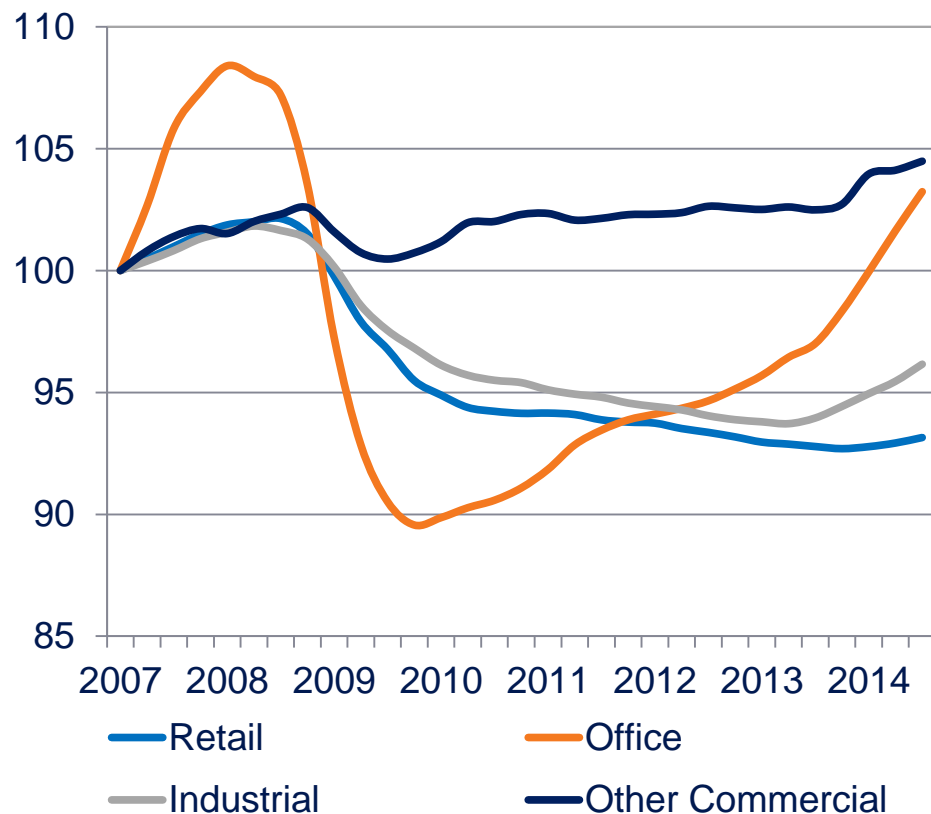
Sources: IPD Quarterly Index, ONS. January 2015.

# Alternative property types

Sectors benefiting from structural change have relatively stable rents

## Rental values

2007 Q1 = 100



We see interesting opportunities in certain alternative property types such as car showrooms, care homes, G.P.s surgeries, leisure and student housing.

### Advantages:

- Many of these types are benefiting from demographic growth, or other structural changes and they are less affected by the economic cycle.
- Rents are relatively stable and may be index-linked.
- Yields are often higher than in the main commercial property sectors.

### Disadvantages:

- Liquidity is often lower than in the main commercial property sectors.
- Alternative types may under-perform when there is rapid rental growth in the main commercial sectors.

# Schroder Real Estate Fund of Funds – CEF I

30 September 2014

## Characteristics

- Closed ended fund valued at €124 million
- Twelve year life fund to 2018
- Exposure to 16 property funds with total assets of c€9 billion
- 10% IRR target return will not be met
- Undrawn commitments cancelled
- Capital starting to be returned to investors

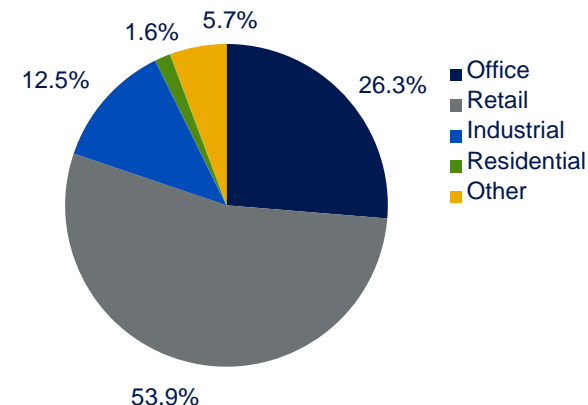
## Performance

Performance (%) EUR	Q3	12 m	3 yr	5 yr	SI
I Units	-4.6	-10.7	-9.0	-5.3	-6.1

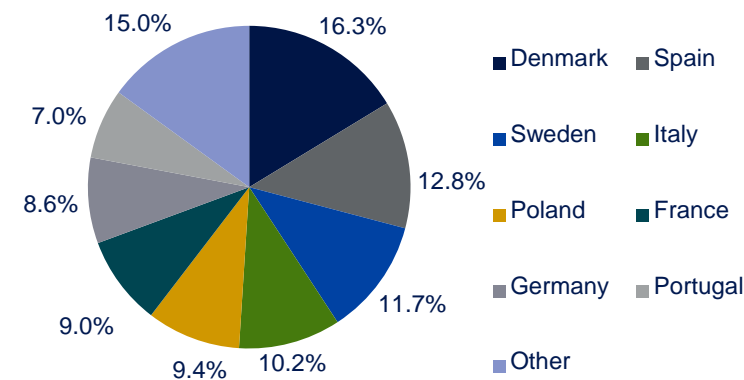
## Key performance contributors (12m)

- **Positive:**
  - Investments made since 2009
  - Listed investments
- **Negative:**
  - Earliest investments including:
    - German residential fund
    - Exposure to Portugal
    - Portfolios with secondary assets

Sector weightings (% NAV)



Geographic weightings (% NAV)



---

# Curriculum vitae

---

## **Graeme Rutter, MRICS – Head of Property Multi-Manager**

- Twenty years investment experience
- Joined Schrodgers in 2007
- Previously Fund Manager responsible for Morley (now Aviva) Fund Management's property multi-manager team
- 1998 – 2004 Director, Investment Agency, Savills
- Commenced his career at Weatherall Green & Smith specialising in valuation
- BSc (Hons) Geography University of Bristol, Diploma in Land Economy (Commendation) University of Aberdeen
- Member of the Royal Institution of Chartered Surveyors (MRICS), holder of the IMC and a corporate finance representative under the SFA
- Chairman of the Association of Real Estate Funds (AREF) Investor Committee; Chairman of the Investment Property Forum (IPF) Indirects Working Group; member of the AREF / IPD UK Property Funds Index Consultative Group



## **Anthony Doherty, MRICS – Property Fund Manager, Property Multi-Manager**

- 13 years investment experience
- Joined Schroder Property in 2001 as a research analyst. Investment career started upon joining Schrodgers as a research assistant in the Economics team in 2000
- Since 2005 fund manager for segregated property multi-manager portfolios and fund advisor to The Schroder Property Real Income Fund
- Responsible for sourcing / underwriting new UK investment opportunities
- BSc (Hons) in Economics and Business
- Member of the Royal Institution of Chartered Surveyors (MRICS), holder of Investment Management Certificate (IMC)



---

# Curriculum vitae

---

## **Geoffrey Day – Client Director**

- Client Director in our dedicated Client Servicing team, based in London
- Joined Schroders in 1996
- Joined Flemings as a fund manager for pension funds and charity clients in 1987. Investment career commenced in 1980
- Degree in Business Studies, University of Plymouth



---

# Important information

---

Participation in the Schroder Property multi-manager service may involve investment in various asset classes including property equity and collective investment schemes ("Funds") within the meaning of Section 235 of the Financial Services and Markets Act 2000 ("FSMA"). Most of these Funds are not authorised unit trust schemes, OEICs or recognised schemes within the meaning of the FSMA and therefore constitute unregulated collective investment schemes. The Schroder UK Property Fund is authorised by the Financial Conduct Authority (the "FCA") as a Qualified Investor Scheme ("QIS"). Only investors to whom a QIS can be promoted, as specified in COBS 4.12.4R of the FCA's Handbook, may invest in Schroder UK Property Fund. A QIS may not be promoted to a member of the general public.

Investors and potential investors should be aware that past performance is not a guide to future returns. No warranty is given, in whole or in part, regarding performance of the portfolio and there is no guarantee that the investment objectives will be achieved. The value of units and other investments and the income from them may fluctuate upwards or downwards and cannot be guaranteed. Property-based pooled vehicles such as property unit trusts, invest in real property, the value of which is generally a matter of a valuer's opinion. It may be difficult to deal in the units or to sell them at a reasonable price, thus creating a liquidity risk. There may be no recognised market for units in the Funds and, as a result, reliable information about the value of units in the Funds or the extent of the risks to which they are exposed may not be readily available. A potential conflict with the Manager's duty to the client may arise where the Manager invests in units in a Fund(s) managed by itself or an Associate. However the Manager will ensure that such transactions are effected on terms which are not materially less favourable than if the potential conflict had not existed.

This document is intended for the use of the addressee or recipient only and may not be reproduced, redistributed, passed on or published, in whole or in part, for any purpose, without the prior written consent of Schroder Property Investment Management Limited ("SPRIM"). This document is not an offer or a solicitation to acquire or dispose of an interest in any investment instruments described herein. Any terms contained in this document are indicative terms for discussion purposes only and are not intended to provide the sole basis for evaluation of any instruments described. Neither this document nor any other statement (oral or otherwise) made at any time in connection herewith is an offer, invitation or recommendation to acquire or dispose of any investment or to enter into any transaction.

The opinions, intentions, expectations and beliefs contained in this document, unless otherwise stated, are those of SPRIM. The information and opinions and associated estimates and forecasts contained herein have been obtained from or are based on sources believed by us to be reliable, but no responsibility can be accepted for error of fact or opinion. The estimates and forecasts included should not be relied upon, are not guaranteed and are provided only as at the date of issue. Our forecasts are based on our own assumptions which may change. We accept no responsibility for any errors of fact or opinion and assume no obligation to provide you with any changes to our assumptions or forecasts. Forecasts and assumptions may be affected by external economic or other factors. This does not exclude or restrict any duty or liability that SPRIM has to its customers under the Financial Services and Markets Act 2000 (as amended from time to time) or any other regulatory system.

Use of IPD data and indices : © and database right Investment Property Databank Limited and its Licensors 2013. All rights reserved. IPD has no liability to any person for any losses, damages, costs or expenses suffered as a result of any use of or reliance on any of the information which may be attributed to it.

For the purposes of the Data Protection Act 1998, the data controller in respect of any personal data you supply is Schroder Property Investment Management Limited. Personal information you supply may be processed for the purposes of investment administration by any company within the Schrodgers Group and by third parties who provide services and such processing may include the transfer of data outside of the European Economic Area. Schroder Property Investment Management Limited may also use such information to advise you of other services or products offered by the Schroder Group unless you notify it otherwise in writing. Calls may be recorded for security .

Schroder Property Investment Management Limited  
31 Gresham Street  
London  
EC2V 7QA

Registration No 1188240 England

Schroder Property Investment Management Limited is authorised and regulated by the Financial Conduct Authority.

---