

FUND PROFILE

RSMR

**LEGAL & GENERAL
INVESTMENT MANAGEMENT
UK PROPERTY FUND (PAIF)**

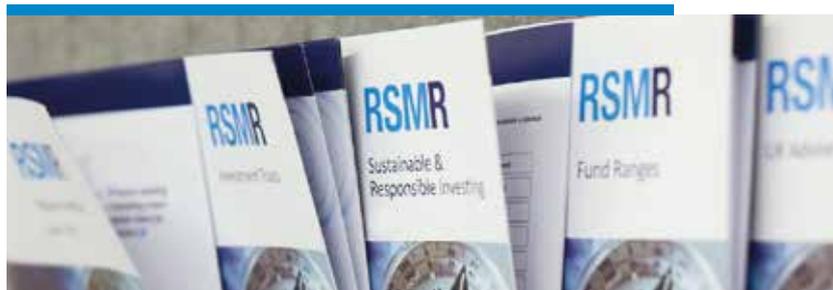
September 2020



OUR RESEARCH. YOUR SUCCESS

CONTENTS

LEGAL & GENERAL UK PROPERTY FUND (PAIF)	4
IA UK DIRECT PROPERTY SECTOR	5
LEGAL & GENERAL INVESTMENT MANAGEMENT	6
Legal & General Real Assets team Fund Objectives & Investment Policy	
LEGAL & GENERAL UK PROPERTY FUND (PAIF)	7
Charges	
THE FUND MANAGEMENT TEAM	8
Supporting Functions	
INVESTMENT PHILOSOPHY & PROCESS	10
Property Selection Asset Management Risk Management ESG Approach	
PERFORMANCE AND HISTORIC ASSET ALLOCATIONS	12
Performance June/July 2016 March 2020 – date Historic Asset Allocations	
CURRENT ASSET ALLOCATION/ECONOMIC & ASSET CLASS VIEWS	15
SUMMARY & EVALUATION	18
ABOUT US	20





LEGAL & GENERAL UK PROPERTY FUND (PAIF)

OUR FUND PROFILES provide an in-depth review of our leading rated funds and are designed to give advisers, paraplanners and analysts an ‘under the bonnet’ view of the fund. In providing more detailed commentary than a standard fund factsheet we believe our fund profiles set the standard for the next generation of research notes, aiding in fund selection and in meeting the ongoing suitability requirements expected by the FCA, and helping ensure firms deliver good client outcomes.

All of our rated funds are subject to rigorous and ongoing scrutiny on both a qualitative and quantitative basis. Our fund methodology is available for download from the RSMR Hub – www.rsmr.co.uk

The **Legal & General UK Property Unit Trust** was launched in February 2006 and became an RSMR-rated fund in February 2012. The fund converted to a PAIF structure on 23rd May 2014, thereby creating the Legal & General UK Property Fund (UK PAIF) and the Legal & General UK Property Feeder fund. Michael Barrie has been involved in the management of the fund since inception and Matt Jarvis has been involved since January 2010. They are supported by the large Legal & General Real Assets team, some of whom are more relevant to the management of UK commercial property funds, including dedicated property asset managers and the Research and Transactions teams.

The investment strategy concentrates on income-producing property assets, avoiding larger ‘trophy’ assets, within a portfolio that is diversified across regions, sectors, tenants and properties. This is a differentiated approach to many other UK property funds. The fund will generally only hold UK commercial property, REITs and cash, with exposure to the latter determined by wider market conditions, including liquidity, the number of investment opportunities and/or the overall outlook for the UK commercial property market.

We believe the Legal & General UK Property fund (PAIF) has the qualities to deliver on its long-term investment aims and objectives and offers a strong option for investors seeking investment in a mainstream UK commercial property fund.



Stewart Smith, Investment Research Manager, RSMR

Stewart joined RSMR in August 2011 and has played a key role in the development of the market-leading RSMR ratings service and also manages a large number of bespoke advisory portfolios on behalf of a wide range of IFA clients.

Stewart joined RSMR from Honister Capital where he was part of the internal research team responsible for fund and product research, including construction of the recommended fund and product list for the company’s financial advisers involving, amongst other things, face-to-face meetings with the fund managers and attending conferences.

IA UK DIRECT PROPERTY SECTOR

The IA UK Direct Property sector was introduced on 1 September 2018 following a consultation with IA members and the Association of Real Estate Funds (AREF). The sector was introduced to make it easier for savers and their advisers to find information on funds investing in bricks and mortar assets based in the UK and make like-for-like comparisons on this asset type. The IA also introduced a 'Property Other' sector to accommodate property funds that do not meet the requirements of the UK Direct Property sector, such as those which invest in property securities, direct funds with a specialist mandate and hybrid funds.

The UK Direct Property sector comprises funds which invest an average of at least 70% of their assets directly in UK property over five-year rolling periods. UK property is defined as real estate located in the UK. There are currently 17 funds from 15 fund providers in the sector (excluding the 'Feeder' funds).

Funds are monitored by the Investment Association and those with less than 70% of their assets in direct property for any continuous 12-month period or those that fall below 60% for any month may be removed from the sector.

The addition of property into a portfolio has traditionally been a way to diversify real assets or invest in an asset that has a lower correlation to equities and bonds. Funds investing directly in UK property are typically balanced funds, holding a wide mix of property assets, diversified by type and location. In general, a balanced fund will have holdings in the office, retail and industrial sectors and 'other property' in their portfolio. They will also be diversified geographically with properties held in any one of the following regions; Central London (comprising the City, mid-town and the West End), Inner London, Outer London, South East, South West, Eastern, East Midlands, West Midlands, Yorkshire & Humberside, North East, North West, Scotland, Wales, Northern Ireland and Offshore UK (Channel Islands and Isle of Man).

Investment in bricks and mortar property can be less liquid than in other asset classes. Investors must understand how the fund operates and take account of any liquidity risks set out in a fund's literature, including

the potential for fund suspensions. Funds will hold cash and other liquid assets to facilitate redemptions but there have been occasions recently where funds have needed to, or been required to, suspend dealing. These are covered later in this document.

Although the UK commercial property asset class has fallen out of favour in recent years, there continues to be sensible reasons to hold it within a portfolio given its diversification benefits and lack of correlation to other asset classes. Whilst liquidity in open-ended funds can be an issue at pressure points, if investors recognise the stability of the yield component, allocate sensibly to the asset class and are prepared to take a longer-term view, then property can be an effective element in a portfolio.

LEGAL & GENERAL INVESTMENT MANAGEMENT

Legal & General Investment Management (LGIM) is the investment arm of Legal & General Group, a FTSE 100 listed company. LGIM is a global asset manager and one of the largest asset managers in Europe with £1.2 trillion of assets under management (source: LGIM, 30th June 2020) across a range of asset classes and strategies for retail and institutional investors.

Legal & General Real Assets team

The management of the UK Property fund falls within the Legal & General Real Assets team, which consists of over 180 investment and specialist research personnel covering real estate and private credit markets and is headed by Bill Hughes.

The Real Assets team is responsible for £35.9 billion of assets under management, of which £21.3 billion is invested in real estate (source: LGIM, as at 30th June 2020).



LEGAL & GENERAL UK PROPERTY FUND (PAIF)

Manager	Matt Jarvis and Michael Barrie
Structure	Property Authorised Investment Fund (PAIF); NURS (Non-UCITS Retail Scheme)
IA Sector	UK Direct Property
Launched	23rd May 2014*
Fund Size	£2,762.03m (18th August 2020) **

(Source, LGIM)

*The original Legal & General UK Property Trust was launched on 28th February 2006

**NB: The associated UK Property Feeder fund is £1,952.58m

Fund Objectives & Investment Policy

The fund's objective is to provide a combination of income and capital growth through investing generally in commercial property and managing cash.

The fund will typically invest at least 80% of its assets in a range of property but can reduce this to no lower than 60% if the fund managers believes it is in the interests of maintaining liquidity and performance. The fund may invest up to 20% in residential property and may also develop properties with the intention of enhancing their capital value and/or income return. The fund may also invest in other UK property-related assets (including property related shares, e.g. REITs, and property-related collective investment schemes), money market instruments, cash, deposits and money market-related collective investment schemes. The fund may only use derivatives for efficient portfolio management.

The fund does not have a formal benchmark but is reviewed against the Investment Association (IA) UK Direct Property sector for performance comparison purposes.

Charges

The table below illustrates the current charges for the Legal & General UK Property PAIF and the feeder fund (Source, LGIM, 31st July 2020):

	OCF	Property Expense Ratio*	Bid/Offer Spread
Legal & General UK Property PAIF I Class	0.75%	0.31%	5.64%
Legal & General UK Property Feeder I Class	0.75%	0.31%	5.64%

*These include maintenance and repair fees, property insurance and letting costs but does not include the costs of buying and selling assets, which are included in the Bid/Offer spread.

THE FUND MANAGEMENT TEAM

Michael Barrie – Fund Director

Michael Barrie is a director of Legal & General Property (LGP) with specific responsibility for the Balanced Property Funds portfolio, including the L&G LPI Income Property Fund and the L&G Managed Property Fund. He established the authorised L&G Property Unit Trust in February 2006 and has an ongoing responsibility for the L&G UK Property Trust.

He joined LGP in 2005 having previously been a director of F&C Property Asset Management and lead fund manager for the RSA Life Unitised Fund and RSA Pension Unitised Fund. He also established and managed the ISIS Property Trust and the ISIS Property Trust 2, which were listed on the London Stock Exchange.

He holds a degree in Land Economics, a postgraduate diploma in property investment and is a member of the Royal Institution of Chartered Surveyors (MRICS) and the Association of British Insurers Property Group.

Matt Jarvis – Senior Fund Manager

Matt Jarvis joined Legal & General Property as an Asset Manager in November 2004 and has worked on the L&G UK Property Fund since launch in 2006, being promoted to Fund Manager in 2010. He was previously a commercial valuer with Jones Lang LaSalle.

He is a Chartered Surveyor with a first class degree in Land Management from Reading University and a Diploma in Property Investment from Cambridge University.

The Legal & General UK Property fund is his sole fund management responsibility.

Supporting Functions

The Legal & General Real Assets team is headed by Bill Hughes and contains approximately 180 people across several support functions, some of which are more relevant to the management of commercial property funds.

Asset Management Team

There is a team of asset managers that is dedicated to the Legal & General UK Property fund and the members are detailed below:

Paul Chester – Senior Asset Manager

Paul Chester joined Legal & General Property as an asset manager in January 2014, having previously been a retail leasing agent with Jones Lang LaSalle.

He holds a degree in land management from Reading University and is a member of the Royal Institution of Chartered Surveyors (MRICS).

Andrew Mercer – Senior Asset Manager, Office Sector Lead

Andrew Mercer joined LGP in May 2015 with responsibility for office assets held by the L&G UK Property Fund. He joined from Capita where he held the title of Director providing clients with commercial investment disposal and acquisition advice. Prior to that, he was a Director at CBRE specialising in Central London investment agency between 2005 and 2009 and landlord and tenant between 1999 and 2004. This included acquiring and disposing of commercial buildings in Central London.

Alex Waterworth – Senior Asset Manager, Head of Industrial

Alex Waterworth joined LGP in April 2015 with responsibility for industrial assets held by the L&G UK Property Fund. He joined from JLL where he held the title of Local Director with the Strategic Asset Management team, having worked on JLL's Industrial Property Investment Fund for eight years.

He holds a degree in Real Estate Management from Oxford Brookes University and is a Member of the Royal Institution of Chartered Surveyors (MRICS).

Olivia Wood – Senior Asset Manager

Olivia Wood is a Senior Asset Manager for the L&G UK Property Fund, covering all sectors with a focus on offices. She joined Legal & General in September 2019 from Savills where she worked as an Associate Director within the Business Space Investment team, providing acquisition and disposal advice on investment and development opportunities with a focus on the office sector. Prior to working in the Investment team she worked in the South East and Greater London Office Agency team at Savills where she specialised in providing advice to Landlords and Occupiers on the disposal, acquisition and development of office opportunities. Prior to working at Savills, she worked at Altus Edwin Hill for two years in the

Business Space Agency team.

She graduated from Kingston University and holds a BSc Hons degree in Real Estate Management. She qualified as a Chartered Surveyor in 2012.

Jessica Cunningham – Asset Manager

Jessica Cunningham joined LGIM's UK Property Fund as an Asset Manager covering all sectors and focusing on alternatives. She joined LGIM in 2018 from JLL where she held the title of Senior Surveyor. At JLL she worked in the alternatives team specialising in the self-storage and automotive sectors. She worked on both transactional and advisory instructions with clients including Metro Bank, Lok'n Store, Access Self Storage and Royal Bank of Scotland.

She graduated from the University of the West of England and holds a MSc degree in Real Estate Management. She qualified as a Chartered Surveyor in May 2017

Nicola Hurst – Asset Manager

Nicola Hurst is responsible for LGIM's asset management within the PAIF fund. She joined LGIM in 2017 from Colliers International where she held the title of Senior Surveyor in the Manchester National Offices team. At Colliers she worked with various clients including The Co-operative Group, Hermes and Schroders, and provided consultancy advice to landlords and tenants within the Greater Manchester market. Prior to that, she was a rating surveyor at Colliers for two years, working with DWF, Thorntons, Aldi and various local authorities.

She graduated from Salford university and holds a BSc hons degree in property management and investment. She recently gained MRICS status.

Research Strategy Team

The 9-person Research Strategy Team is headed by Rob Martin and sits within the wider Research function within the Real Assets team. It provides top-down sector strategy and themes plus micro level forecasting that looks to add value to stock selection and portfolio positioning.

Transactions Team

The 9-person Transactions Team is headed by Gordon Aitchison and sits within the wider Investment and Development function within the Real Assets team. It supports the fund managers with the sourcing and securing of property transactions. The Head of Transactions chairs a weekly meeting that reviews and allocates properties with input from sector specialists and fund managers.

Sustainability/ESG Team

The 3-person Sustainability/ESG team is headed by Shuen Chan and sits within the wider Research function within the Real Assets team. It provides specific ESG support to the fund.

Property Management

This function looks at the day-to-day management of properties and is outsourced to third parties. Responsibilities include minor building work, building services and agreeing tenant and landlord covenants.

Real Assets Investment Committee

The Legal & General Real Assets Investment Committee makes the final decisions on which properties are bought and sold in the portfolio. The Committee consists of the majority of the directors within the Real Assets business and they are the senior members:

Mike Barrie – Fund Director
Gordon Aitchison – Head of Transactions
Rob Martin – Head of Research
Paul Edwards – Head of Asset Management
Bill Hughes – Head of Real Assets (occasional member)

There are also a number of junior members, including:

Matt Jarvis
Tom Roberts
Bill Page
Derek Gilby/Will Edwards (by rotation)

INVESTMENT PHILOSOPHY & PROCESS

The managers aim to achieve consistent outperformance within a research-driven, defined risk framework. They expect around two-thirds of the outperformance to come from bottom-up, individual property-related factors and around one-third to come from top-down, sector allocation.

There are three key inputs to the fund's overall strategy; LGIM's global macroeconomic indicators, property sector forecasts, and thematic drivers of property investment returns.

Research is the first part and is a key element of the investment process which relies predominantly on the in-house research provided by the Real Assets Research team. The team provides top-down sector strategy and thematic analysis plus overall portfolio analysis. It sources information from various economic, demographic and property data providers with the MSCI's IPD Real Estate service, which provides industry performance benchmarks, being the most commonly used, and there is independent property data from Property Market Analysis. External forecasts from the likes of the Investment Property Forum are looked at but not necessarily used within LGIM's own forecasting process. Economic data is also sourced from the Office of National Statistics (ONS) and Thomson Reuters whilst demographic data is also sourced from the ONS and Census amongst others.

The Research team also looks at information from within the wider LGIM group, including macroeconomic, equity market and fixed income market analysis. They will provide views on top-down sector strategy and themes plus more micro-level forecasting to help influence portfolio construction and property selection. Views from the sector specialists are taken into account within the research process and in the production of quarterly forecasts. The team will also provide bespoke research, in collaboration with the investment teams, on specific research topics, which may cover everything from macro-related analysis to sub-market trends.

The portfolio is constructed within a formal sector allocation process, aiming to maintain diversification and provide the strongest risk/return profile. Sector allocation is based on a combination of factors: current weighting versus benchmark, fund constraints, sector risk/return

forecasts, volatility, liquidity and transaction costs.

Property Selection

An early stage in the property selection process is the weekly review and allocation of properties across the various strategies managed within the LGIM group. This is attended by fund managers and sector specialists with the intention of providing early feedback from the sector analysts and to resolve any points of conflict. As one of the largest UK property fund managers, they receive a large number of potential investment opportunities covering the spectrum from very large to very small properties across all sectors.

The sector specialists provide support to the fund managers on possible transactions and ongoing asset management plans, providing input on areas such as the overall leasing market, potential tenants, new development provisions, existing tenant relationships and recent transactions.

The property selection process focuses on the main characteristics of location and specification, looking for stronger than average income growth over the longer term. The managers tend to avoid short-term opportunities in non-core assets, as these do not match their risk/return requirements. The managers make recommendations on purchases and sales for the portfolio, but the final decision is made by the Real Assets Investment Committee. Any deal over £25 million must be counter-authorised by the CEO of LGIM Real Assets.

All potential property purchases are subject to a risk/return assessment, looking firstly at the forecast sector return from the research process and the adjusting this for the individual property characteristics, including; location, supply, length of tenant occupation, tenant quality, lease terms and building specifications. There may be input from the corporate bond and equity teams to analyse tenant credit risk and to provide a view on future credit strength, plus the private credit function within the Real Assets team can provide further tenant analysis.

Asset Management

LGIM believes asset management is an important factor in maximising returns and look to generate 1%+ total return through asset management initiatives, including renegotiating/changing leases, adjusting tenant mixes in properties, redevelopment and refurbishment. This is a key role of the team of asset managers appointed to this fund.

Each property in the portfolio has an asset management plan, which is updated annually. There is a six-monthly review of each asset and of progress versus the plan. Day-to-day property management is outsourced to Jones Lang LaSalle (JLL).

Risk Management

The approval process is overseen by the Investment Committee plus there are minimum approval requirements for capital spending from the fund manager, fund director, sector specialist and finance director.

A quarterly IRIS income report assesses the fund's income characteristics versus the benchmark plus the review and expiry profile, any over-renting or reversion, exposure by tenant, sector and tenant credit ratings. In conjunction with the performance reports, these provide an indication of whether the overall strategy is being implemented.

In addition to the formal sign-off processes, regular financial checks are made against the fund's guidelines and objectives and to check the strength of tenant covenants.

The independent Guidelines Management & Control Monitoring team is responsible for monitoring all LGIM funds against their respective guidelines.

ESG Approach

ESG is a key part of the process, with the Sustainability/ESG team within L&G Real Assets being increased over the last 12 months, and a number of new initiatives have been implemented during 2019, including measuring the social value generated by the assets.

This involves the production of quarterly sustainability reports, benchmarking performance through GRESB, (Global Real Estate Sustainability Benchmark) and assesses the ESG performance of real assets, aiming to provide standardised data to the real estate sector. The Real Assets team also considers sustainability when looking at asset management, development and refurbishment activity, including looking to obtain Very Good or Excellent BREEAM (Building Research Establishment Environmental Assessment Method) ratings for individual buildings. Sustainability plans are produced for every property acquisition. Finally, the team uses the sustainability consultancy firm Evora to provide insight into the energy, carbon and utility usage across the buildings held and this relationship has been extended over the last 12 months.

The team has specific ESG-related goals, including a 60% reduction in energy use by 2030 and net zero carbon emissions by 2050.

PERFORMANCE AND HISTORIC ASSET ALLOCATIONS

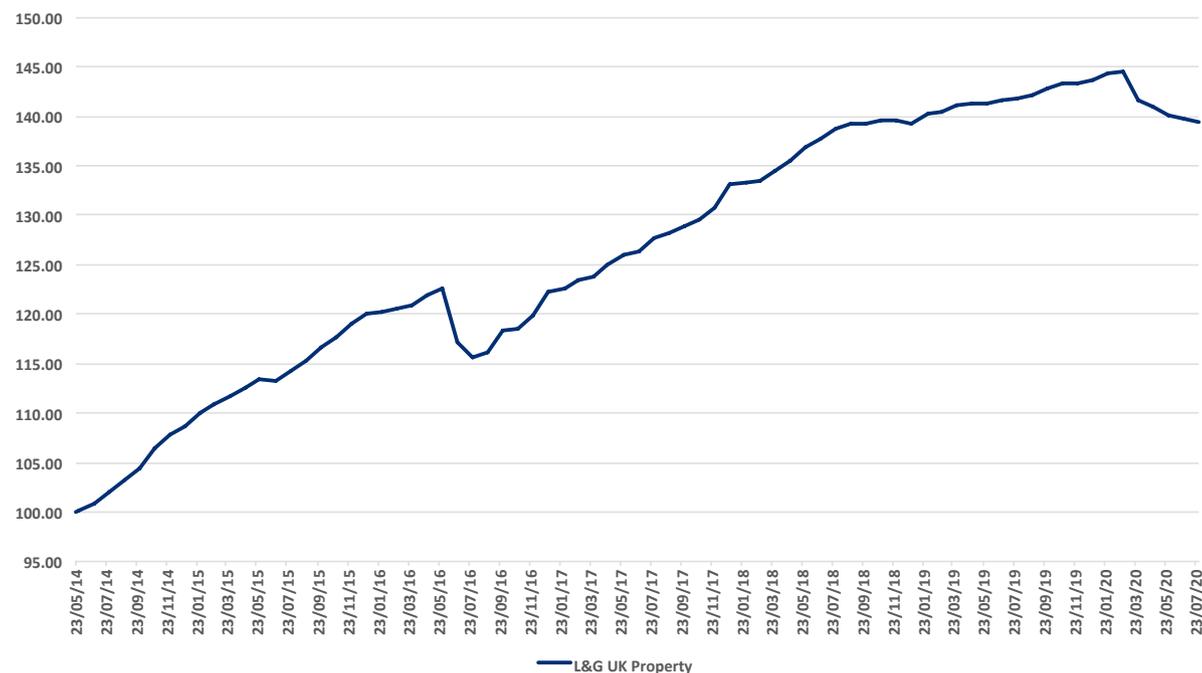
(All data sourced from Legal & General Investment Management, as at 31st July 2020, unless stated otherwise)

Performance

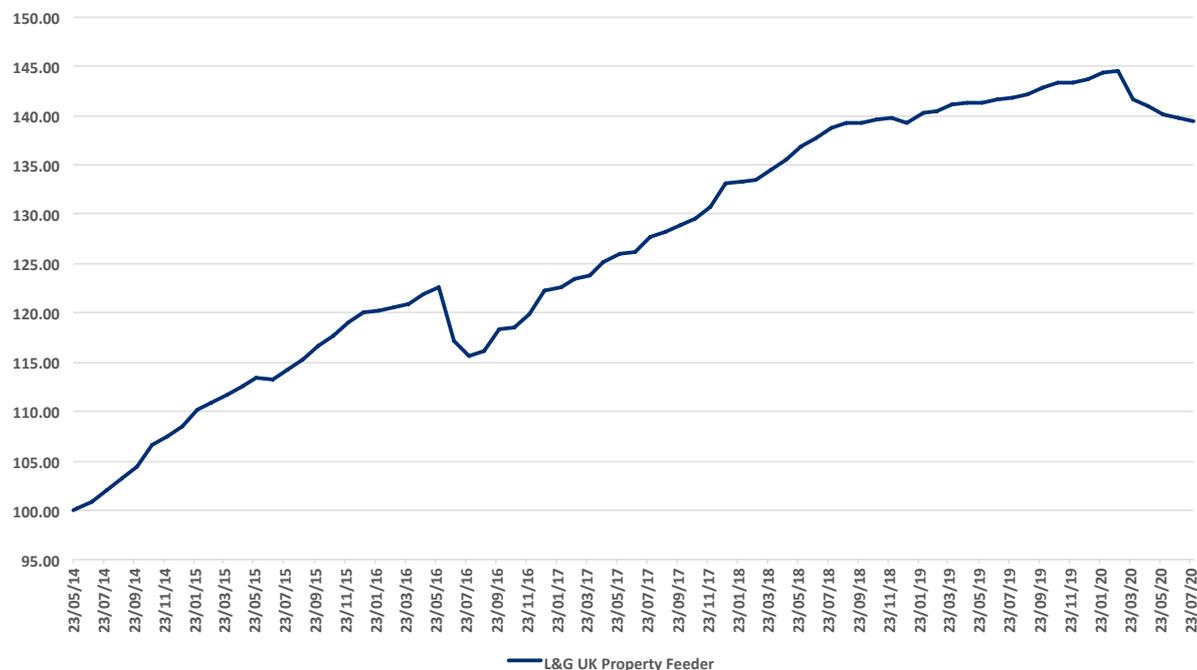
	31/07/2019 to 31/07/20	31/07/2018 to 31/07/19	31/07/2017 to 31/07/18	31/07/2016 to 31/07/17	31/07/2015 to 31/07/16
L&G UK Property	-1.66	2.22	8.69	10.40	1.20
L&G UK Property Feeder	-1.67	2.22	8.69	10.40	1.20

(Past performance is not indicative of future returns.)

Legal & General UK Property fund - Performance since PAIF conversion



Legal & General UK Prroperty Feeder fund – Performance since PAIF conversion



June/July 2016

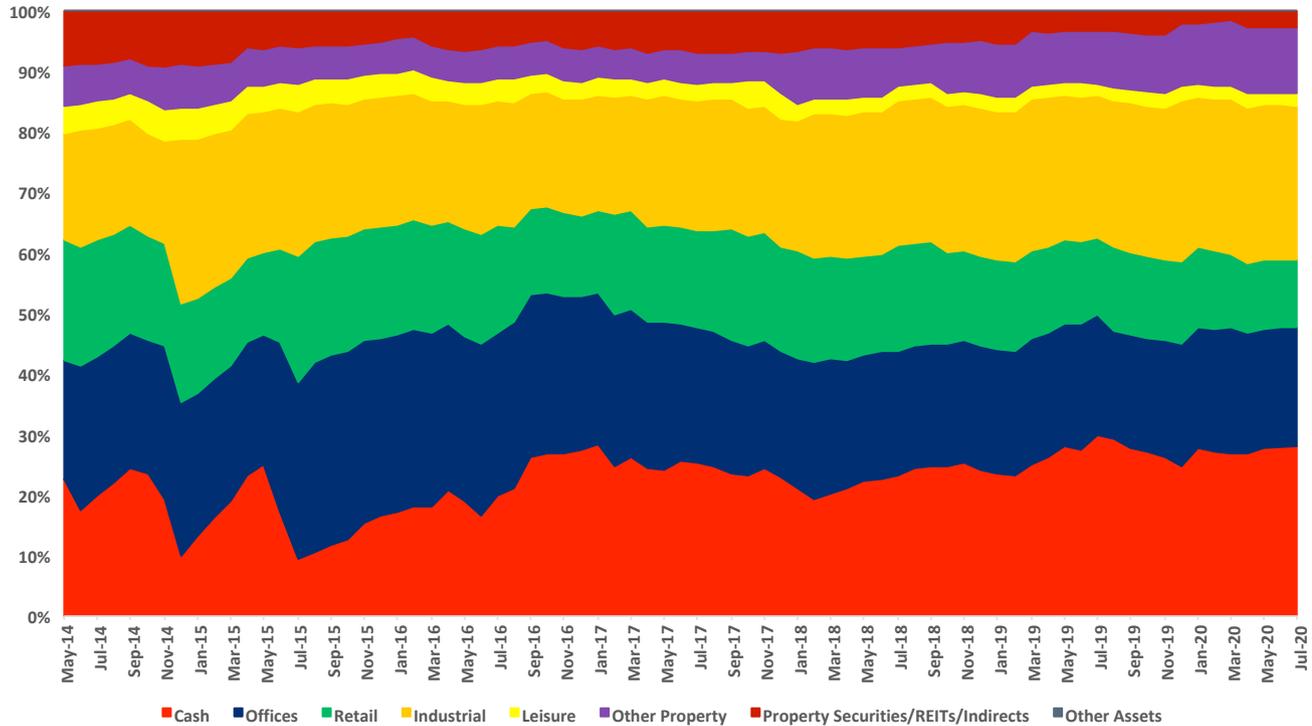
This was the period post the EU referendum result. The fund was one of the few to remain open when many other UK retail property funds temporarily suspended dealing, but the fund's pricing was impacted by a closure of the bid/offer spread to zero and there was also the application of fair value adjustments to property values. The main reason for the price changes was the significant increase in the level of investor redemption requests following the referendum, as many saw the result as very negative for the UK commercial property market, particularly London. The fund was able to remain open having already built a significant cash position, so it was able to meet the redemption requests.

March 2020 – date

Performance of the fund has been impacted by the knock-on effects of coronavirus on property valuations, particularly in the retail sector, although the fund's exposure is relatively limited, but also in the leisure/hospitality sectors. The fund suspended dealing on the 18th March 2020 due to the regulatory impact of Material Valuation Uncertainty (MVU) clauses requiring it to do so and at the time of writing the fund remains suspended. This is covered in more detail later in the document.

Historic Asset Allocations

Legal & General UK Property – Historic Asset Allocation

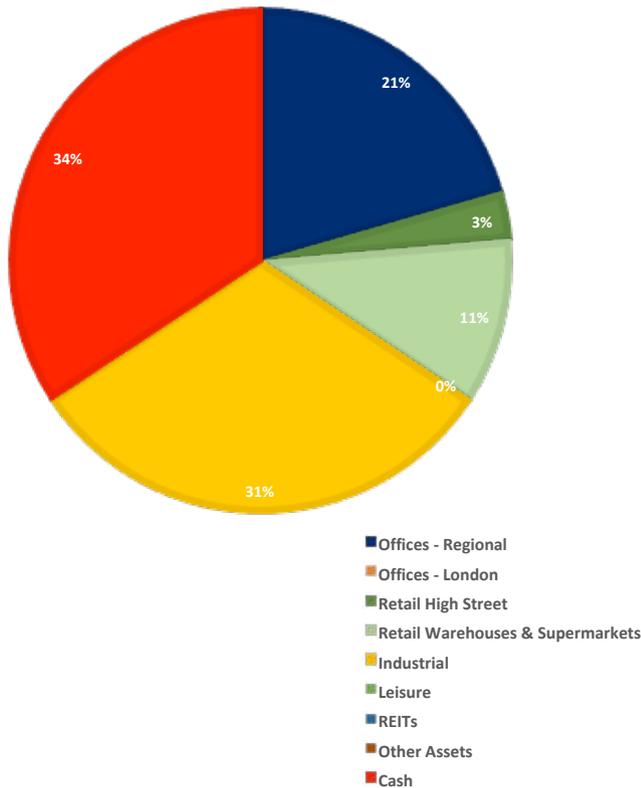


As can be seen from the chart, the fund's sector allocations have tended to change relatively gradually over time with the most noticeable changes being reductions to the retail sector and property securities/REITs and increases to the industrials and other property sectors. The cash level has been around/above the 20% level since the third quarter of 2016 with the current level close to its highest ever allocation.

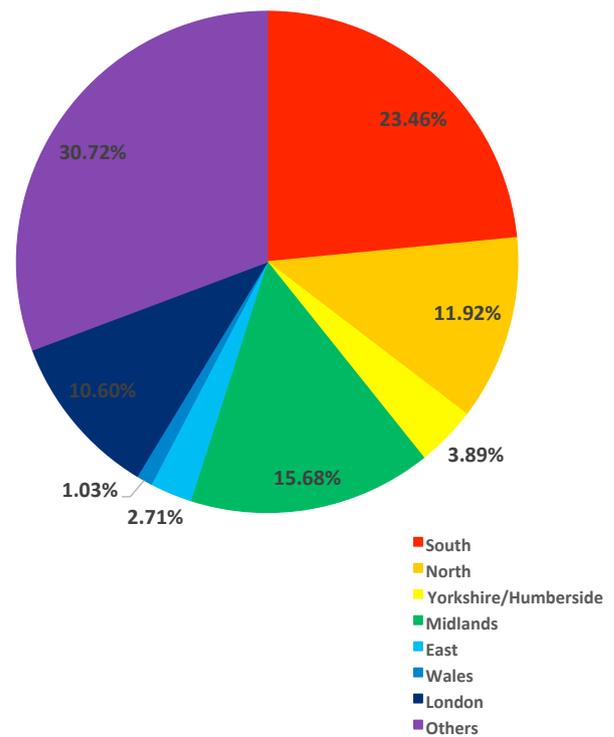
CURRENT ASSET ALLOCATION/ECONOMIC & ASSET CLASS VIEWS

The following diagram summarises the asset allocation percentage splits as at the end of July 2020 (Source: Legal & General Investment Management)

L&G UK Property – Regions



L&G UK Property – Regions



Fund Suspension – Material Valuation Uncertainty

At the time of writing the fund remains suspended for investor dealing due to the impact of Material Valuation Uncertainty (MVU) clauses, but this does not mean that the fund management team has not been active in the management of this fund. Material Valuation Uncertainty (MVU) clauses have been applied across a large number of UK commercial property funds, both retail and institutional, due to independent valuers stating that, primarily due to the impact of the coronavirus pandemic, they have been unable to accurately value certain UK commercial properties. Once this applies to more than 20% of a fund's assets then the FCA guidelines are for funds to suspend dealing. The Legal & General UK Property fund was suspended on the 18th March. It is interesting to note that this is the first time that MVU clauses have been used in retail property funds, as they were not used during the Global Financial Crisis.

Initially, the MVU clause applied across several sectors, but these have been gradually lifted with properties/sectors such as ultra-long lease lengths and supermarkets among the first to be lifted, followed by the Industrials sector and more recently by the Offices sector. In early September, the MVU clause was lifted from all sectors other than certain operational assets (e.g. hotels) and therefore applies to only 1.7% of the fund's NAV.

Whilst there is now a higher degree of confidence from the independent valuers for most of the assets in the fund, re-opening can only take place once the fund's authorised fund manager, Legal & General (Unit Trust Managers) Limited is confident that doing so is in the best interests of investors.

In line with their regulatory responsibilities, the fund should not reopen until the Board considers that the exceptional circumstances no longer apply, taking into account the following:

1. The Board is confident that units can be marked at a fair and reliable price for investors;

2. The Board believes the fund will be able to remain open, taking into account the risk of a further suspension and/or a liquidity event upon reopening.

With the best interests of investors in mind, the Board is reviewing the situation and will be communicating with investors in due course.

Outlook and Positioning

As you would expect, our recent fund manager discussions have centred around the impact of the coronavirus pandemic on portfolios, and UK commercial property is no different. The managers have been active in trying to identify the potential winners (least impacted) and losers (most impacted) in terms of property sectors and underlying tenant exposure, although they see most of this as an acceleration of structural trends/changes that were already evident, and the portfolio had already been positioned accordingly coming into 2020. Negative trends include the structural challenges in the non-food Retail (particularly shopping centres), secondary offices and care homes sectors and positive trends include the increase in Build to Rent accommodation and increased capacity in healthcare/research and development.

LGIM believes some sectors such as leisure/hospitality and student accommodation will see a relatively severe, but short-term impact with the longer-term outlook remaining positive. Centrally-located offices, multi-let industrials and logistics will be hit by the slowdown in economic growth, but the longer-term structural impact will be relatively limited. One area they had been positive about earlier in 2020 but have become more negative on is Central London offices, where they expected to see some recovery, but they now believe this will be more difficult in the shorter-term with uncertainty as to how these offices will be occupied going forward. As can be seen from the chart on sector splits, the fund has relatively little exposure to London offices. The Industrials sector has performed strongly over the last couple of years with strong capital growth and rental growth, but this remains one of the managers favoured sectors despite tighter pricing and lower yield levels, as the sector's fundamentals remain strong. This is also a sector where it has been easier to add value

through active asset management and it is a sector where the managers are more reluctant to sell existing assets, so it remains the largest property allocation in the portfolio.

In terms of rent collection, the manager collected over 85% of rent due in the second quarter, plus they gave support to individual tenants through rent deferrals, which in combination accounted for c.95% of rents due. There was a small number of tenants that were not in a position to pay their rent, mainly in the leisure or leisure-related sectors, and the manager has been trying to work with these companies wherever possible through active engagement. The initial numbers for third quarter rent collection are strong with over 85% collected as at 31st August 2020 (with a further 6% of rent deferral agreements).

The managers have been very active in their buying, selling and asset management activity despite the difficult backdrop. In the final quarter of 2019 they committed money to an off-market purchase of a 'build to rent' block in Chelmsford that is being developed into residential apartments, communal areas and parking spaces, which adds to two existing blocks already owned in the same development and is scheduled to be completed in November. In the first quarter of this year they agreed to buy a share in a development of 'build to rent' residential apartments and parking spaces in Manchester. This increased their residential exposure and the managers can see residential exposure rising to double digits in the future. More recently they purchased a newly built self-storage unit in Stafford. Each of these purchases is classified in the Other Property sector exposure and this is an area they had been actively looking to increase and is a key overweight for the fund.

The managers also sold a few properties during 2020, including the sale of an office in Bracknell, which they saw as having poor ESG credentials, to the local council, the sale of a Tesco supermarket in Kettering back to Tesco (significantly over-rented) and an industrial estate in Hayes. More recently, they have sold two office assets in Birmingham and Slough and a private hospital in Darlington, for a variety of reasons.

Although capital values have started to stabilise overall, there will continue to be reasonable sector differentials and it is difficult to see any significant positive capital growth at overall asset class level in 2021, with returns being driven by income. Property yields remains attractive relative to fixed income and this gap is expected to remain relatively stable.

SUMMARY & EVALUATION

At the time of writing the Legal & General UK Property fund remains suspended for investor dealing but the fund managers have continued to be active in their management of the underlying portfolio.

Legal & General Investment Management (LGIM) is one of the largest commercial property investors in the UK and has built up its resources accordingly within the context of the wider LGIM Real Assets team. Michael Barrie and Matt Jarvis are very experienced property fund managers, with both having worked on the fund since its launch in 2006, Barrie as a fund manager and Jarvis firstly as an asset manager and then a fund manager from 2010. They have the benefit of a dedicated asset management support team that has been increased over time, plus they draw upon the wider resources of the Real Assets team, especially the Research Strategy, Transactions and Sustainability/ESG teams, and the wider LGIM group through their work with corporate bond and equity teams. This is a formidable structure.

The fund aims to be a core, UK commercial property fund and, as such, will be diversified at sector and individual property level, but the managers are prepared to back their convictions with their sector positioning relative to the main property benchmark. This is currently represented through a large underweight to the retail sector plus overweight positions in the industrials sector and the alternatives space. The latter includes residential property, which is not included in all funds of this type but is an area where exposure is expected to increase over time. There is enough flexibility to allow the managers to produce good levels of outperformance over the longer term.

The investment philosophy and process is well-defined and well-established with the intention of driving returns through both top-down analysis and bottom-up property selection. The research function is a key part of this, providing macroeconomic and thematic analysis, considering a variety of sources both internal and external and providing return forecasts for each of the property sectors. This helps the fund managers to shape the overall portfolio. As one of the UK's largest commercial property investors, LGIM benefits from a significant number of investment opportunities across the size and sector spectrum, enabling it to 'cherry pick' the best risk/return options. The team aims to make long-term investments, developing plans for any asset management opportunities, and potential purchases are presented to

the Investment Committee for final approval. Ongoing asset management is an important part of the process, continually looking at ways to add value with asset management plans regularly reviewed.

The integration of sustainability/ESG is key to the investment process and LGIM continues to expand its activities in this area, including an increase in numbers within the Real Asset Sustainability/ESG team. ESG integration is more difficult for property than other asset classes, as the managers are dealing with physical assets and tenants, but LGIM is looking to do as much as it can, including the production of specific sustainability reports, benchmark ESG performance against other property funds through the likes of GRESB and BREEAM and introducing specific sustainability/ESG-related targets. They are also active in measuring social value generated from the buildings, a relatively new initiative.

Long-term fund performance has been strong and this has continued since the PAIF conversion in 2014. 2016 was a difficult period for the whole UK commercial property sector but this was one of the few funds to remain open throughout this period, as the managers had already built up a high cash weighting, the bid/offer spread was cut to 0% and fair value adjustment pricing was introduced. The fund quickly recovered from this period until very recently when the impact of the coronavirus pandemic has been felt across every asset class. Performance has held up reasonably well with much of the fund's positioning coming into 2020 limiting the overall impact, particularly the underweight to retail and overweight to the industrials sector. Some of the exposure to leisure/hospitality has been negative. The managers have done a thorough analysis of their portfolio and, although they see some short-term impact, they remain positive about the longer-term outlook with income driving much of the shorter-term performance. They continue to hold a high level of cash, which will reduce overall returns in positive return environments, but this is typical of most commercial property funds in the current environment and provides a large degree of liquidity, as well as the ability to act swiftly when considering acquisitions.

Overall, we believe the Legal & General UK Property fund (PAIF), and its associated Feeder fund, has all the qualities to continue delivering on its long-term investment aims and objectives, providing a strong option for investors seeking mainstream UK commercial property exposure.

ABOUT US

RSMR

Established in 2004 RSMR provides research and analysis to firms working across the UK's personal financial services marketplace.

Our work is completed with total impartiality, without any conflict of interest and delivered to a high professional standard by a team of experienced and highly qualified people.

Working with advisers

We provide specialist research, analysis and support to a diverse range of financial advisers and planners helping them to deliver sound advice to their clients, backed by rigorous and structured research and due diligence.

The main regulatory body in the UK, the FCA, states that personal recommendations made by advisers should be 'based on a comprehensive and fair analysis of the relevant market' and this has led to closer scrutiny of the whole advice process. Our solutions are designed to help advisers meet these challenges whilst recognising that advisory firms require a range of flexible options that best meet their own business needs and those of their clients.

Working with providers

We work with all the leading fund groups, life and pension companies and platform operators across the financial services sector offering straight forward and pragmatic advice to help add value and improve their business performance and efficiency whilst treating customers fairly in line with FCA requirements.



Ratings

Our innovative ratings are now recognised as market leading and cover a broad area of investment solutions including single strategy funds, SRI funds, Multimanager and multi-asset funds, DFMs and investment trusts. Our familiar 'R' logo is now recognised as a trusted badge of quality by advisers and providers alike and a 'must-have' when selecting funds. Our ratings are founded on a strict methodology that considers performance and risk measures but places a greater emphasis on the ability of fund managers to continue to deliver performance in the years ahead. based on our in-depth face-to-face meetings with fund managers across the globe.

We understand financial services and we will work alongside you to deliver tailored solutions that are right for your clients and your business.

Our research. Your success.

The data and information in this document does not constitute advice or recommendation. We do not warrant that any data collected by us, or supplied by any third party is wholly accurate or complete and we will not be liable for any actions taken on the basis of the content or for any errors or omissions in the content supplied.

All opinions included in this document and/or associated documents constitute our judgement as at the date indicated and may be changed at any time without notice and do not establish suitability in any individual regard.

©RSMR 2020. All rights reserved.

RSMR

Number 20
Ryefield Business Park
Belton Road
Silsden
West Yorkshire
BD20 0EE

Tel: 01535 656 555
Email: enquiries@rsmgroup.co.uk
www.rsmr.co.uk

OUR RESEARCH. YOUR SUCCESS

Rayner Spencer Mills Research Limited is a limited company registered in England and Wales under Company Registration Number 5227656.
Registered Office: Number 20, Ryefield Business Park, Belton Road, Silsden, BD20 0EE.
RSMR is a registered trademark.