VIEWPOINT

CT PROPERTY GROWTH & INCOME FUND

Property with liquid benefits

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At a glance

- **Why property now** – we believe that our portfolio looks robust in an environment of higher inflation and interest rates with cash from recent property sales ready to be deployed as opportunities arise.
- **Best of both** – the combination of physical and listed real estate can be a powerful mix – tapping into the potential of property investment whilst countering challenges like liquidity.
- **Real estate = real attractions** – income from real estate can prove resilient – even in mild recessions. The asset class also offers diversification benefits and scope for growth where supply and demand imbalances exist.

Issued August 2023

Our perspectives on the market and macro backdrop

How confident are you of income growth?

Much has been written about rental growth from industrial property over the past few years and we have seen this evidenced in our own portfolio. This growth is being driven by several factors but most significantly it is the supply and demand imbalance prevalent in the industrial market. Demand for industrial space has been steadily increasing (internet growth, onshoring etc) while supply has not kept up and has fallen in some urban areas. However, it is not just industrial that has benefited from rental growth – the medical, student and private rented residential sectors have all seen growth as well as specific retail assets, mainly retail warehouse and outlet villages.

Are there markets you want to avoid?

In short – yes. Effectively the markets with the opposite characteristics of those discussed above. Those markets where supply exceeds demand and where there are headwinds to that demand – eg. shopping centres and offices (excluding super prime). Effectively the type of property that has a discretionary element to it. In shopping centres, retailers can reduce their footprint where a store doesn't make a profit. In industrial an occupier needs a place to store their widgets – it isn't an optional cost, it's a necessity. Offices have major and multiple headwinds at the moment – from sustainability upgrades to construction cost inflation to the challenges of working from home. These are just two good examples of markets we believe it is wise to avoid.

What happens if interest rates continue to rise?

The short-term consequences are relatively easy to analyse – most of the companies in our investment universe are well capitalised – Loan to Value (LTV) ratios are considered low especially compared to the private market and many have fixed their debt costs. In the UK, for example, the average cost of debt is 3.2% with an average term to debt maturity of 5.7 years.

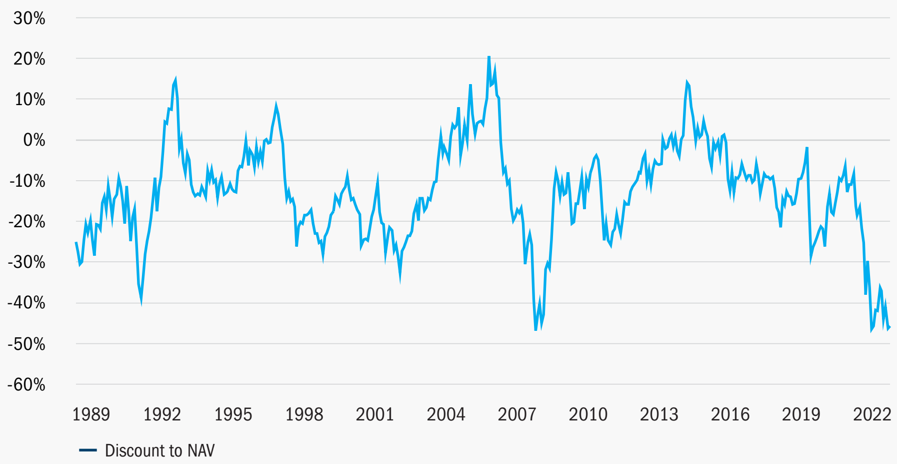
What happens to property markets in a recession?

In a mild recession there is likely little impact on necessary property such as offices and industrial and a larger impact on discretionary property like retail. Habits take time to change, and leases take time to expire. Therefore, mild recessions have limited impact in the short/medium term.

Do current valuations of listed property companies factor in increasing interest rates?

Yes – equity markets are forward looking while net asset values (NAVs) are rear looking and delayed. Equity markets are trading at an average discount of 30% with an implied yield of 6.5% so are factoring in significant further valuation adjustments.

FTSE EPRA Nareit Europe – discount to NAV



Source: Columbia Threadneedle Investments

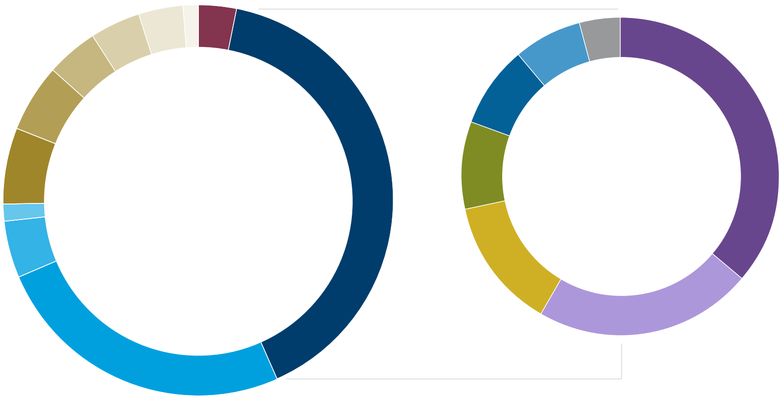
Why property now – and how we're positioned

Diversified and targeted property exposure

The fund is positioned to take advantage of favourable market dynamics. Our weighting to physical property has been reduced through the sale of properties. The proceeds of the last two sales (£20m) is in cash and waiting to be deployed as opportunities arise. In the physical portfolio our exposure to industrial remains intact and we are still capturing rental growth in our own assets. The equity portfolio is positioned in those markets discussed earlier where we see strong supply and demand dynamics and in companies with strong balance sheets.

Portfolio allocation

CONTINENTAL EUROPE SHARES	40%
UK DIRECT PROPERTY	31%
INDUSTRIAL	25%
OFFICES	5%
RETAIL WAREHOUSE	2%
UK SHARES	25%
UK MAJORS	6%
INDUSTRIALS	6%
UK HEALTHCARE	4%
UK DIVERSIFIEDS	4%
SUPERMARKETS	4%
UK RETAIL	1%
CASH	3%

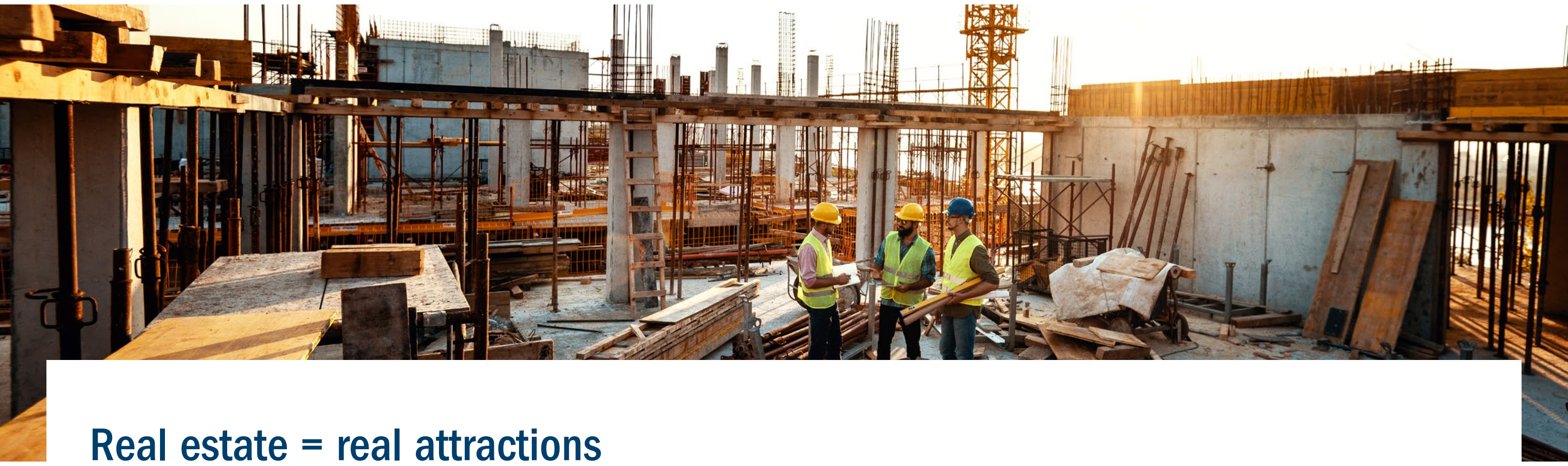


FRANCE	36%
GERMANY	22%
NETHERLANDS	13%
BELGIUM	9%
SWITZERLAND	8%
SWEDEN	7%
OTHER	4%

Note : Europe country exposure as % of allocated capital
Source : Columbia Threadneedle Investments. Data as at 23.06.2023

Why now is the time to invest

Property equities rose 34% between October 2022 and February 2023 as investors began to focus on 'peak rate' arriving in mid to late 2023. These timelines have now been extended due to stickier inflation, but we expect a similar market response once the new 'peak rate' expectation is established. In addition, we are seeing smart investors take advantage of discounted share prices – Blackstone's purchase of Industrials REIT at a 42% premium to the share price and London Metric's purchase of CT Property Trust at a 38% premium to the share price to name but two.

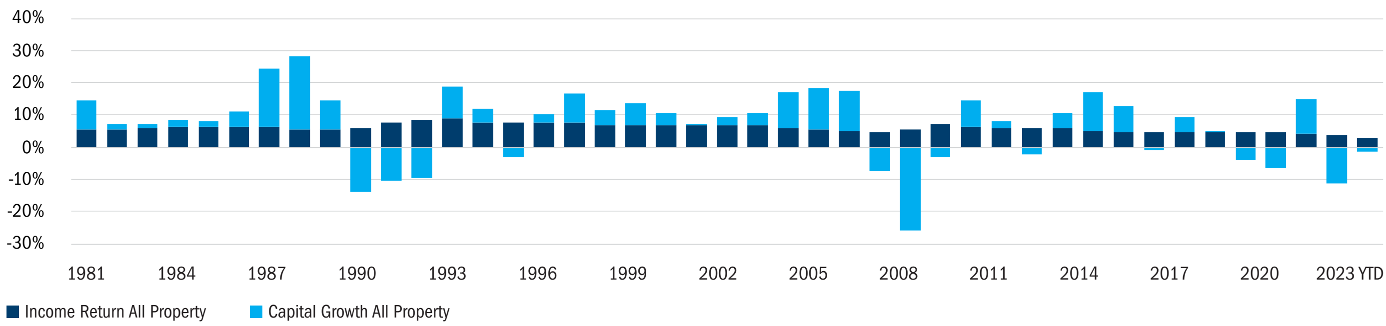


Real estate = real attractions

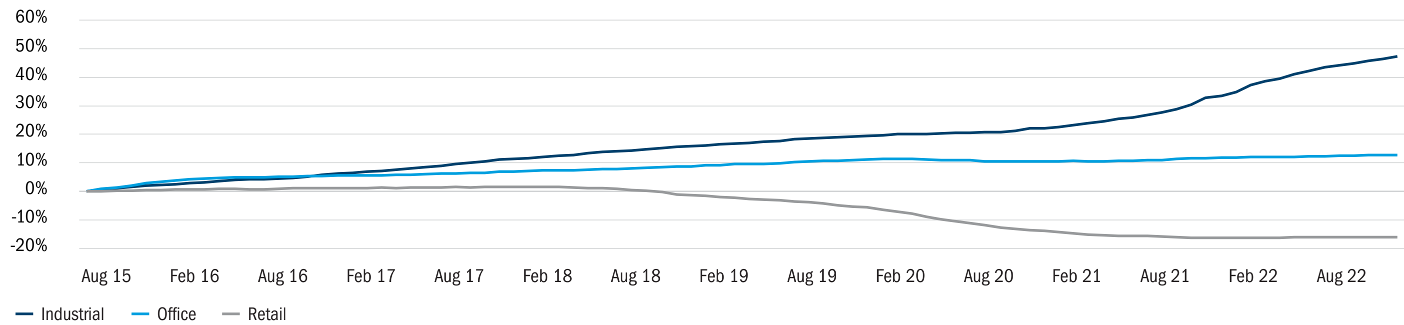
Income attraction – fundamentally property is about income and having the ability to grow that income stream. People often get caught up in the cyclicality of capital returns from property and forget about the core element of property's total return – income. This is about businesses paying rent to occupy space. If you don't pay rent, then you can't occupy that space and for most organisations this is not a discretionary spend as without space to operate from they have no operations. Hence the reason why income from property is so resilient even in mild recessions. Currently our physical portfolio yields 6.5%* and the equity portfolio 6.2%**.

Scope for growth – growth is the second component of property's potential return. It can come from supply demand imbalances (market effect) or from contractual obligations (indexation). Over the past 3 years the income from our own property portfolio has grown by 33%** on a like for like basis as our 'hands on' asset management approach has delivered a growing income stream from the properties we own. The chart on rental value growth which shows how industrial rental growth has been consistent over the past seven years and the macro environment of the past 12 months have lowered the rate of growth but not stopped it. On the Continent, index linked leases are the norm and they

MSCI UK All Property Total Return Breakdown

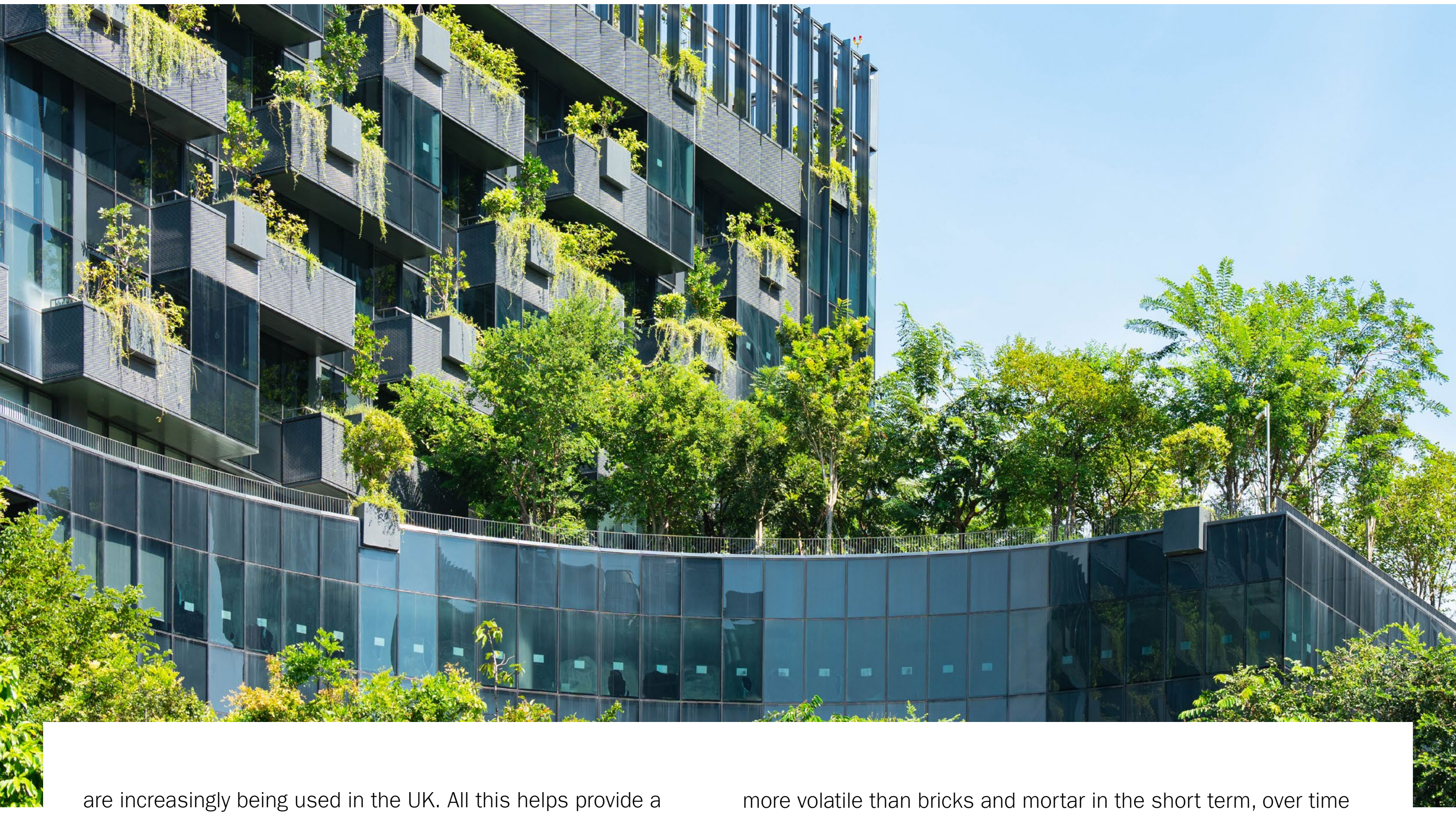


Rental Value Growth



Source: Columbia Threadneedle Investments

* Topped up net initial yield allowing for rent frees, ** Source: Columbia Threadneedle Investments, 31 July 2023



are increasingly being used in the UK. All this helps provide a degree of inflation protection over the medium term. However, for as long as the 5-year rent review cycle dominates in the UK that correlation will be weaker.

Enhancing the asset mix – there are two types of diversification offered by commercial property – low correlation to asset classes such as fixed income and general equities and then sectoral diversification within the asset class itself. Physical property assets typically display different performance characteristics to other investment types and although real estate securities can be more volatile than bricks and mortar in the short term, over time they become more closely correlated with physical property.

In terms of sectoral diversification, the chart showing rental value growth speaks a 1000 words as structural changes dominate the broad relative performance of property sub-sectors. As well as these three traditional sectors we can now gain exposure to student accommodation, self-storage, retirement living, primary healthcare, hotels, supermarkets to name but a few. Selectively investing across this host of sub-sectors can really enhance diversification with a portfolio.

What are the benefits of a hybrid approach over traditional bricks and mortar?

We believe that a combination of direct and indirect property can be a powerful mix. Physical property is relatively illiquid so by complementing real assets with readily traded real estate securities we can better offer investors the liquidity they seek. At the same time, high costs and practical realities of transacting in physical property can lead to higher cash balances in physical funds. By investing real estate securities, we can remain more fully invested, countering cash drag and helping investors maintain broader portfolio asset allocations. The hybrid structure also brings more active tools into play. For physical assets that means purchases/sales, redevelopment, and lease management. Within the equity component, stock selection and both sub-sector and geographic allocations are actively managed. And finally, adding real estate securities dramatically increases the fund's reach and diversification via quality businesses across many sub-sectors and geographies.

CT Property Growth & Income Fund – get the lowdown on our hybrid approach to property investing.

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The value of investments and any income derived from them can go down as well as up as a result of market or currency movements and investors may not get back the original amount invested.

The value of directly-held property reflects the opinion of valuers and is reviewed periodically. These assets can also be illiquid and significant or persistent redemptions may require the manager to sell properties at a lower market value adversely affecting the value of your investment.

To find out more visit **columbiathreadneedle.com**

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