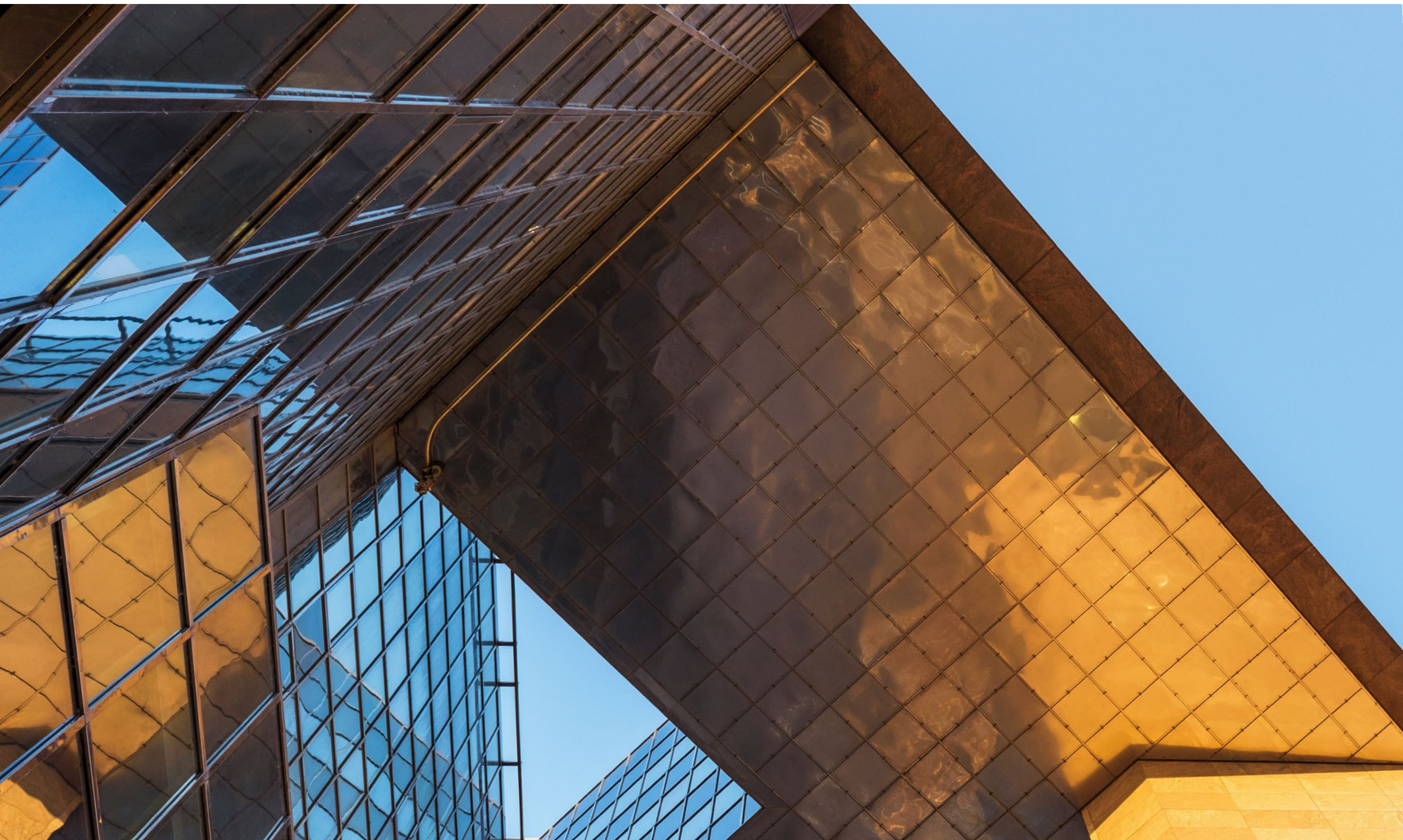
COLUMBIA THREADNEEDLE INVESTMENTS



VIEWPOINT

CT PROPERTY GROWTH & INCOME FUND

Targeting relative value in listed real estate

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At a glance

- With inflation data suggesting we are at or near the peak in interest rates and investors assessing scope for cuts in 2024, real estate equities have risen sharply from their lows.
- Despite negative sentiment, fundamentals remain strong across much of the sector. Data from recent rate hiking cycles suggests real estate securities look well placed from here.
- Given the relative value we see in listed real estate we continue to reinvest proceeds from physical asset sales into real estate equities – flexibility engendered by our innovative hybrid approach.

Issued November 2023

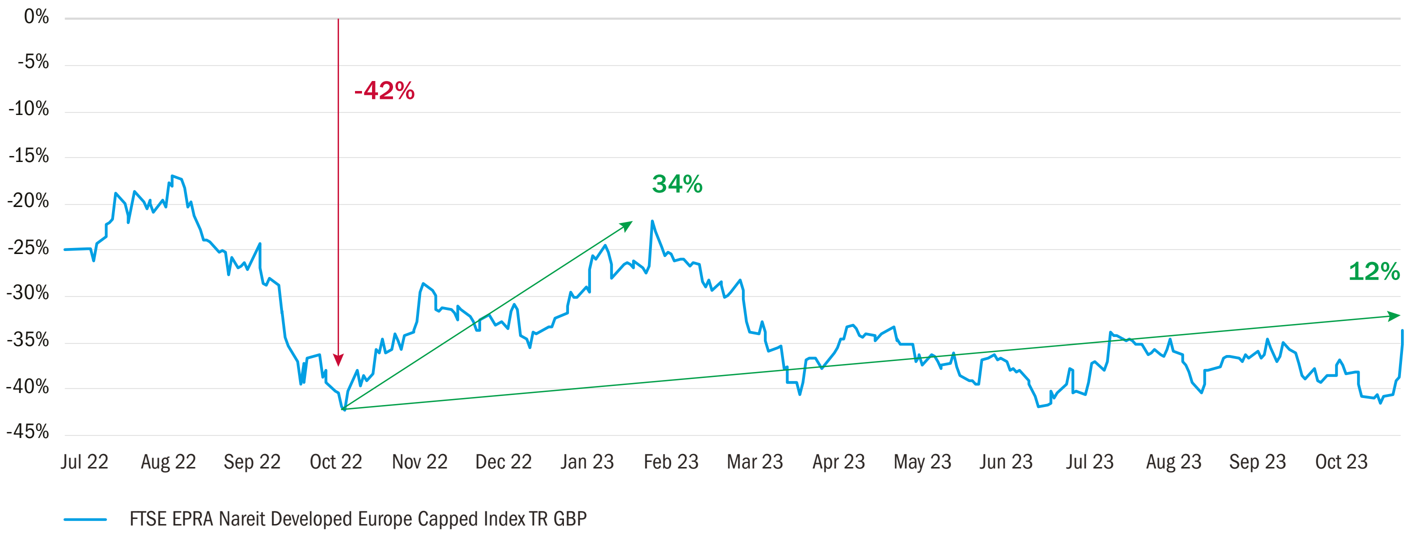
In recent weeks, we have seen a variety of data points indicating that inflation is coming under control and that central bank monetary policy is bearing fruit. This leads to the conclusion that the period of rising interest rates is close to (or at) an end and the market is now looking forward. Could interest rate falls be on the cards in 2024?

With data showing an easing of inflation we can look forward with more confidence

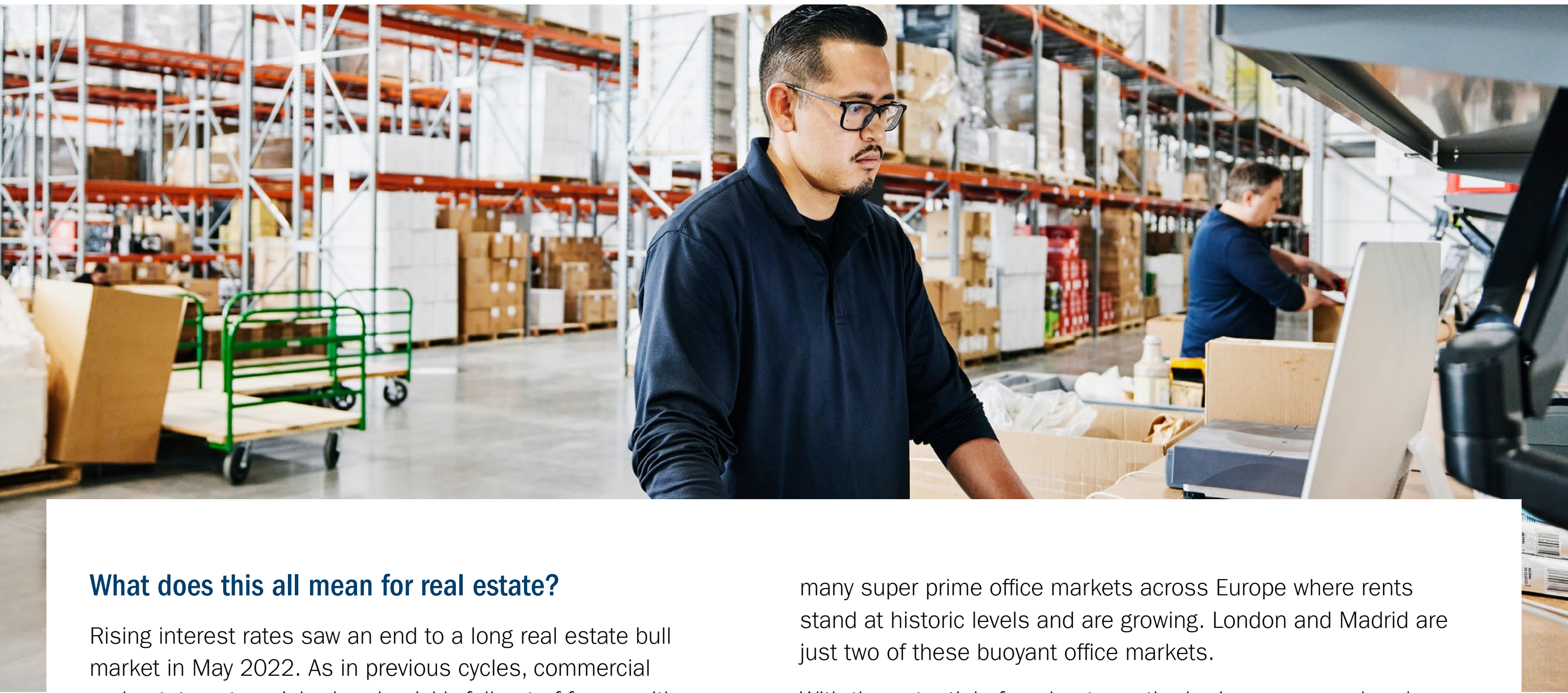
How have Real Estate Equities performed over the past 12/24 months?

Following the Kwasi Kwarteng mini-budget of September 2022 there was a sense that peak interest rates might be just around the corner. In anticipation, the market rose 34% between October 2022 and February 2023. However, this was a false dawn, and all these gains were given back in February and March. Now, 12 months later, markets appear to be reacting in a similar fashion. Over the past two weeks, commercial real estate equities have risen 19% from their October 2023 lows. This time however, we have a greater number of data points with which to judge our course and therefore greater conviction in the prospects from here.

Pan-European real estate equities – performance 2022/23



Source: Columbia Threadneedle Investments



What does this all mean for real estate?

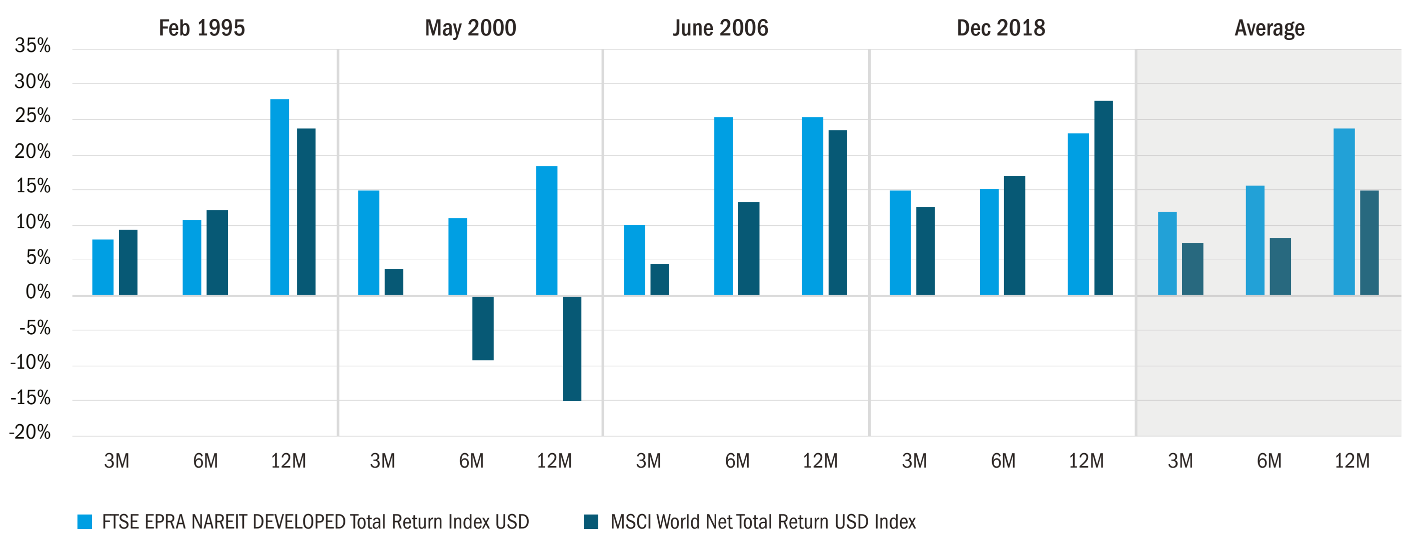
Rising interest rates saw an end to a long real estate bull market in May 2022. As in previous cycles, commercial real estate got punished and quickly fell out of favour with investors. Unlike other cycles however, the underlying fundamentals of real estate markets were strong. Development had been kept in check by a consistent lack of finance for speculative initiatives and while financing was available for investment purchases this was moderate. Loan to values remained generally sensible and there was no significant debt fuelled boom. There has also been strong occupier demand in multiple markets such as logistics, the private rented sector and student accommodation. Despite the perceived demise of the office in general there are still many super prime office markets across Europe where rents stand at historic levels and are growing. London and Madrid are just two of these buoyant office markets.

With the potential of peak rate on the horizon or even already here we can now look beyond a steepening of the yield curve.

So how does commercial real estate perform at the end of a rate rising cycle?

If we analyse real estate performance following peak rate in the last four rising cycles, it is apparent that real estate equities offer scope for outperformance relative to the wider market. As shown in the chart, the average outperformance has been more than 8% in the 12 months following the last rate rise.

Performance of real estate equities vs. global equities – after the last four cyclical peaks in interest rates



Source: Columbia Threadneedle Investments

Why the performance differential between real estate equities and the wider equity market?

The chart below shows the differential between listed European real estate and the broader European equity market since December 2021. In that time, the EPRA FTSE NAREIT Developed Index has underperformed the STOXX 600 by almost 35%. We believe that this gap will start to close over the coming months as real estate equities rerate.

Once in a decade value proposition? European listed real estate materially underperformed wider equities

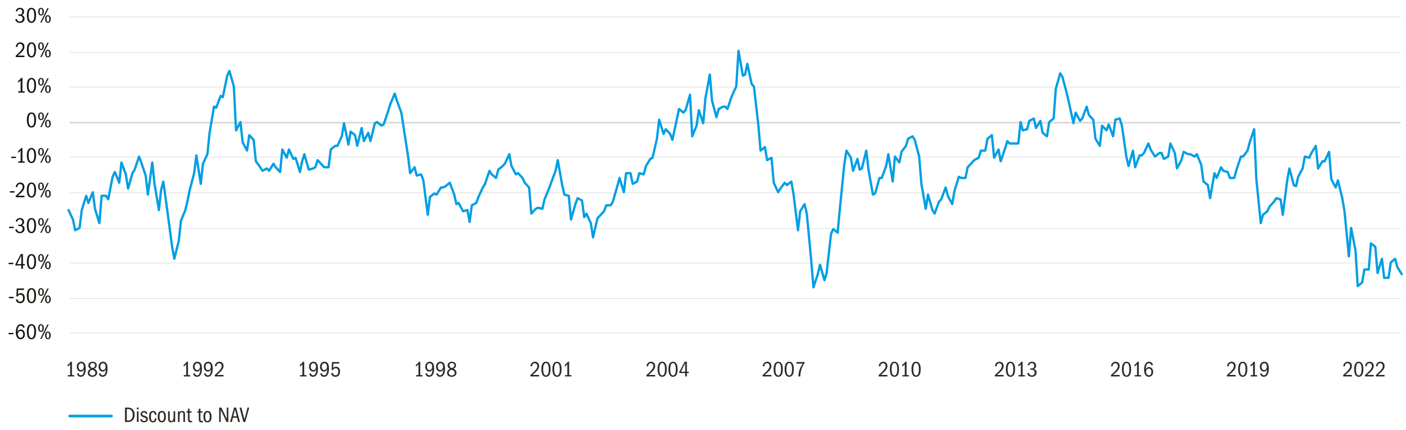
Source: Columbia Threadneedle Investments

Where do current valuations of real estate equities sit?

As at the end of October, the pan-European real estate equity market was sitting at a -43% discount to net asset value (NAV) which, in our view, is in dislocation to the value of the underlying real estate. We do not believe that the market should trade at par, but the current rating of many companies does not reflect the true value of underlying assets, the strength of the income streams from contracted leases or the relatively low leverage of companies such as Land Securities or Picton Property Income.

Each cycle has different drivers and the calculation of NAVs varies across geographies but what this chart illustrates is that currently, real estate equities are sitting at historic lows in terms of discount to NAVs. It's a relatively blunt tool in the short run but when looking over a 30+ year time horizon, it can be illuminating.

Pan-European real estate equities – valuation



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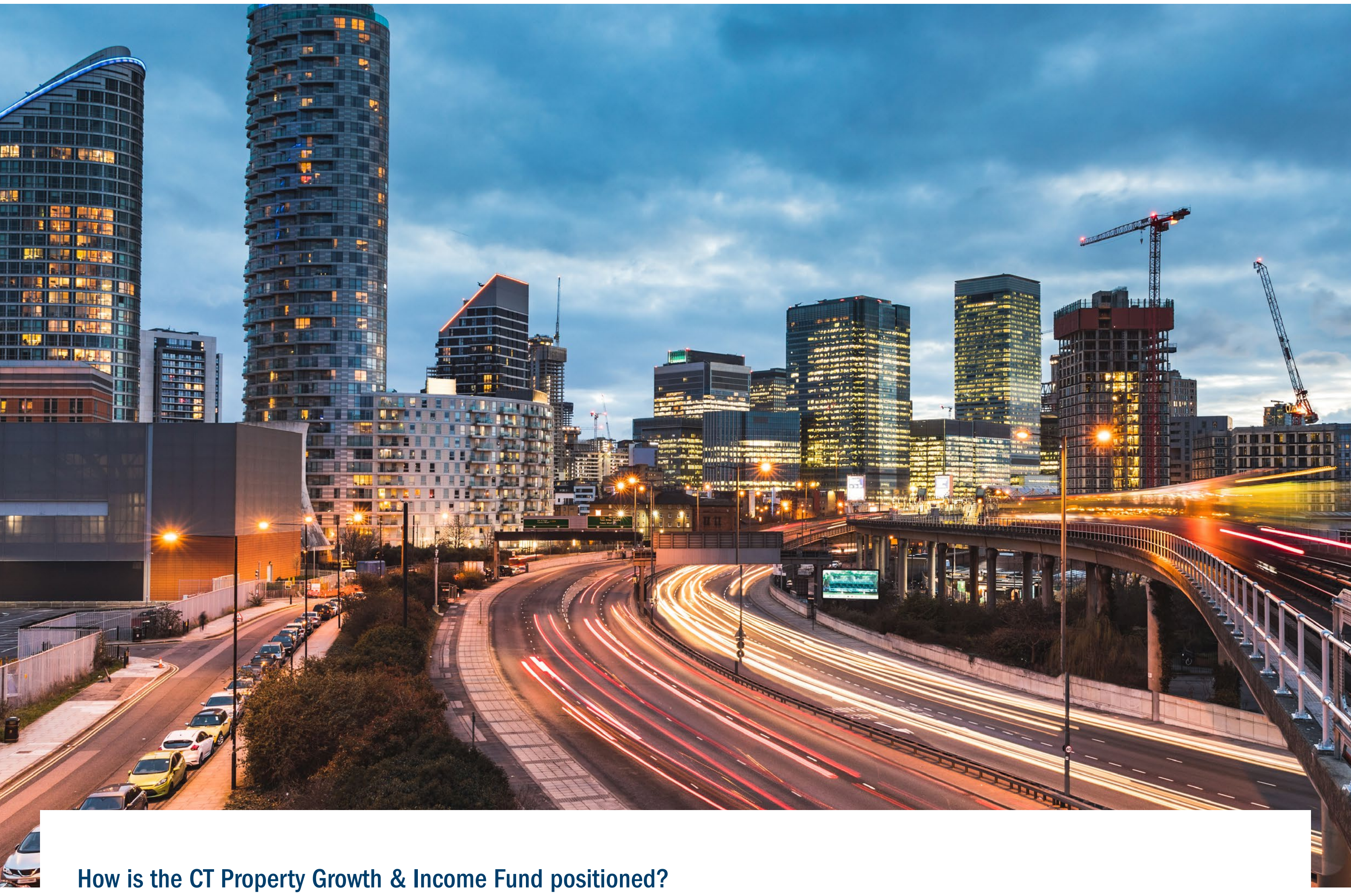


How is the CT Property Growth & Income Fund positioned?

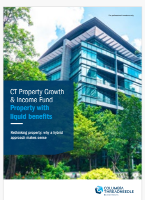
Having sold six properties for a total of £40.1m, the Fund has continued to transition between physical property and real estate equities over the past 12 months. All proceeds have been reinvested into the equity market and assets were sold at their market valuation. We expect to continue the trend reinvesting proceeds from physical asset sales into listed securities over the coming months. This rotation from physical to listed seeks to take advantage of the pricing differentials we see between the two markets.

In the equity portfolio we remain focused on real estate fundamentals – income and the ability to growth income.

European retail remains a core component of our portfolio – income streams have remained resilient which has surprised those unable to appreciate the difference between retail on the continent and in the UK. Our holdings in distribution 'sheds' and medical properties remain key themes with the likes of Tritax Group, WDP and Primary Healthcare Properties being attractive for their depth of income and high levels of indexation, which have been such important characteristics over the past 12 months.

The mention of any specific shares should not be taken as a recommendation to deal. Columbia Threadneedle Investments does not give any investment advice.

The portfolio contains a blend of listed and physical real estate. This structure allows us to adopt a flexible approach to asset allocation.



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

Download here

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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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