

LEGAL & GENERAL UK PROPERTY FEEDER FUND - GBP

INVESTMENT RESEARCH NOTE
FEBRUARY 2024

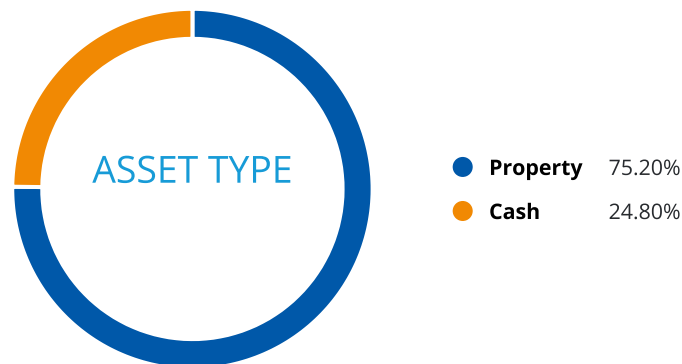
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SUMMARY

L&G Investment Management ('LGIM') is one of Europe's largest asset managers with total assets of £1.14 trillion. It is also one of the largest UK property managers leveraging its size and scale to source assets all over the UK. The fund forms parts of LGIM's 'Real Assets' platform which manages £35bn of assets (as at December 2019). LGIM manages over £23bn in real estate equity and debt (as at December 2018).

The fund is a Property Authorised Investment Fund ('PAIF') run by highly experienced Property Managers, Michael Barrie (Director of L&G Property or 'LGP') and Matt Jarvis, who manages the day-to-day activities for the fund. Both have been with the firm for a long time, well over a decade each.

The fund benefits from their advanced security selection skills and an integrated real estate platform which offers diversity and scale when sourcing assets. The Investment Team's objective is to provide a combination of income and growth through investing generally in commercial property - it invests a minimum of 60% in commercial property assets - although occasionally may invest in residential (upto 20%) and develop property using derivatives to reduce some of the risks of the market. The fund is designed to suit investors seeking high quality properties as part of a low-turnover portfolio. As mentioned, the UK Property fund benefits from economies of scale which make the fund attractive from a cost perspective.



INVESTMENT PROCESS

The Investment Team is focused on property selection and active management combining a top-down approach focusing on creating the sector strategy and bottom-up for the identification of added value initiatives. The fund managers seek to acquire undervalued assets, and as one of the largest UK property fund managers the fund has access to most of the market intermediaries and the investment opportunities that arise in the market. The fund managers judge the return required from any individual property which needs to reflect the level of risk implicit in the asset. To manage the risk inherent within fund, the managers evaluate specific factors as location, supply, tenant credit risk as well as level of over-renting. Current running yield is 3% while average lease length is 7.2 years vs peers on 6.7 years. An indication of the fund's approach to asset selection is seen by the much lower covenant risk strength of 13.8 compared to the UK Property benchmark at 52.1.

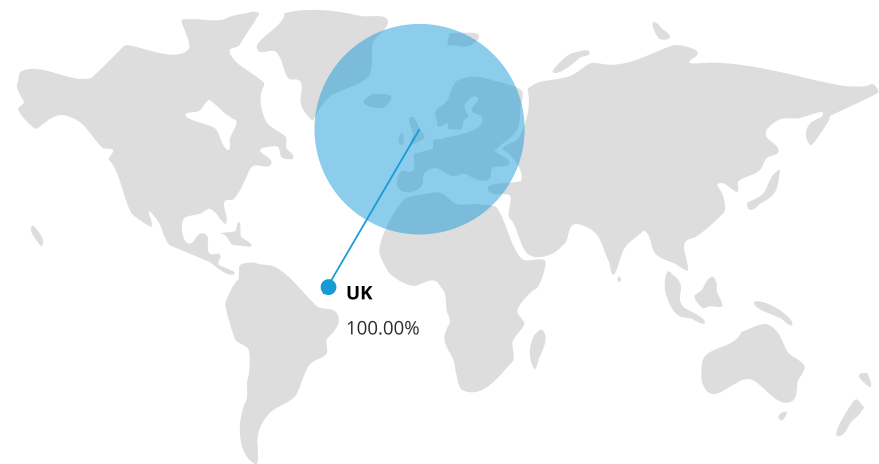
Average lot size is £22m, which is large but fits with the fund's scale approach, allowing it to purchase such assets not in reach of smaller peers. The fund's returns have largely been driven by its industrial and office exposure more so than retail (in which the fund has always been underweight vs the market), which it views as being in decline. Looking at the fund's next 5 year forecast for the sector (2020-24) it sees West End and Northern based industrial assets as the most attractive with an estimates 6.4% per annum growth profile for both over this period. Such assets are sourced via the team's broad, in-depth research infrastructure across all market sectors. The alternatives sector is another, newer source of growth, with the fund investing in areas such as hotels, student lettings, care homes.

ESG is a key consideration in the investment process. The fund and LGP overall incorporate ESG and sustainability into their decision-making process. They see ESG enhancing performance over the long-term, linking ESG to employee remuneration and their objectives. There is an active engagement policy with investors and LGP uses its size to influence policy makers and industry bodies alike to improve the ESG framework within property. The fund has achieved a 'GRESB Green Star' (an ESG real assets benchmark) an overall score of 80% in 2019.

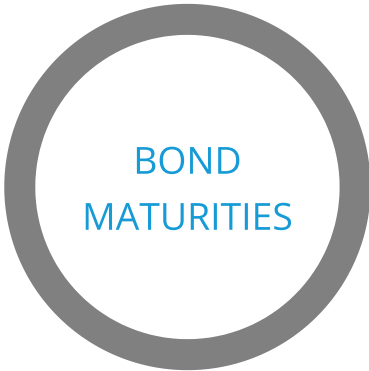
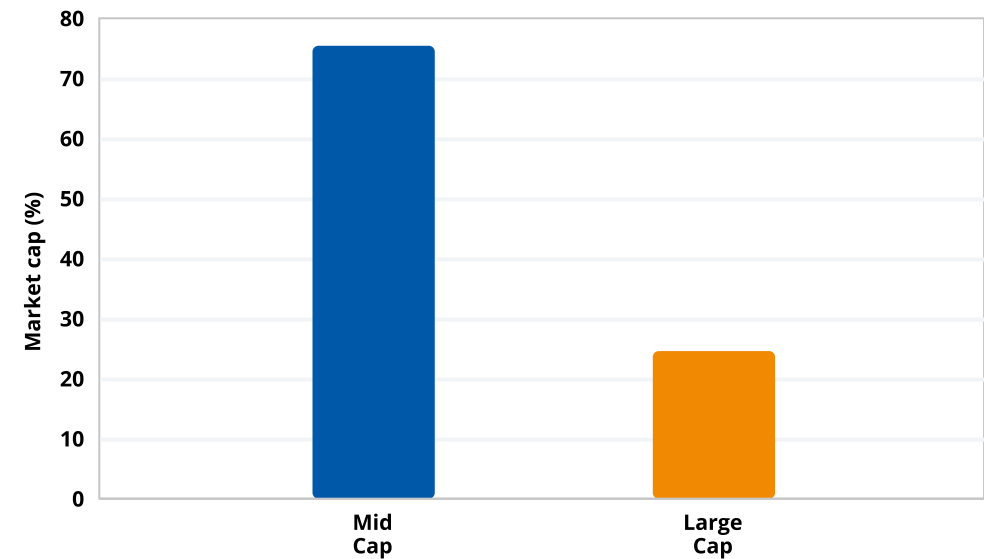
While the fund has daily liquidity, investors need to be aware of the underlying mis-match between the assets and ability to redeem in a severe liquidity event. The higher lot size relative to other peers may exacerbate that scenario too. That said, the fund is conscious and typically has a cash balance of between 12-15% of the fund's value.

AGGREGATED NET EXPOSURE

REGIONAL EXPOSURE



EQUITY MARKET CAP (%)



Not Applicable



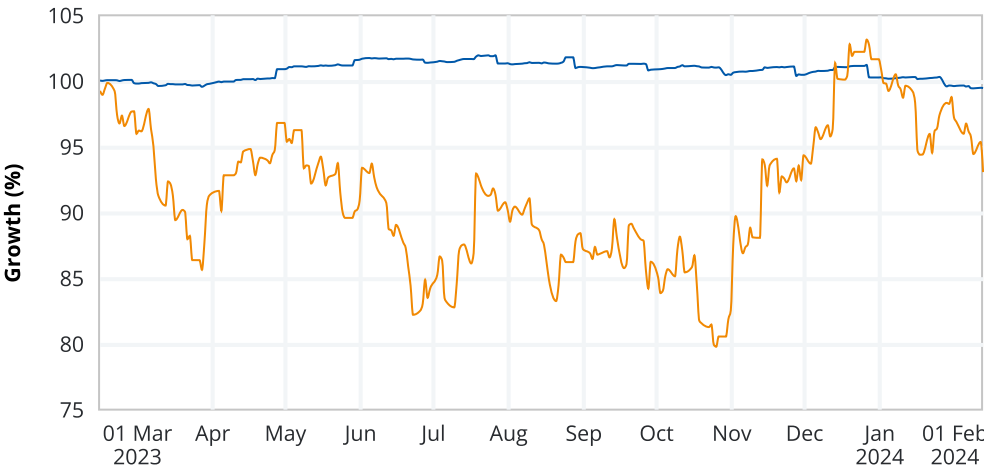
Not Applicable

OVERALL PERFORMANCE

● L&G UK Property Feeder I Acc ● FTSE 350 Real Estate Index

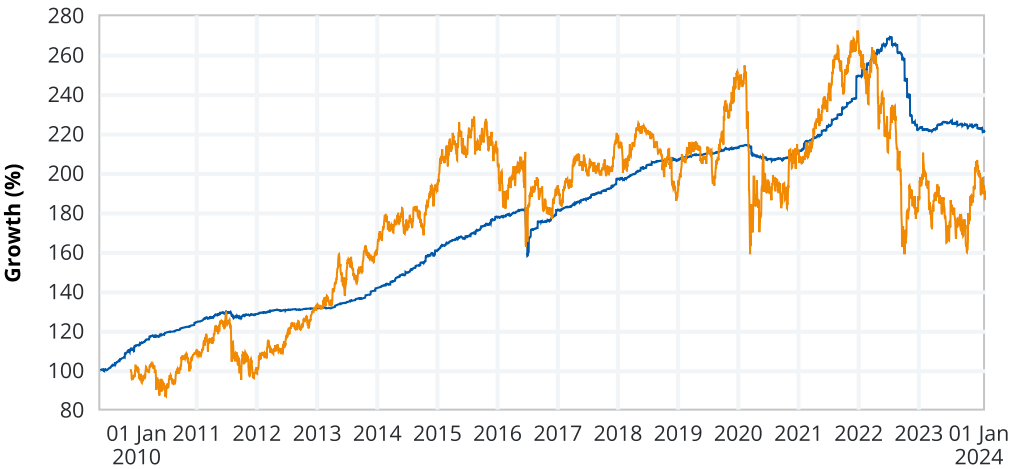
GROWTH (%) - OVER 1 YEAR

14 Feb 2023 - 13 Feb 2024



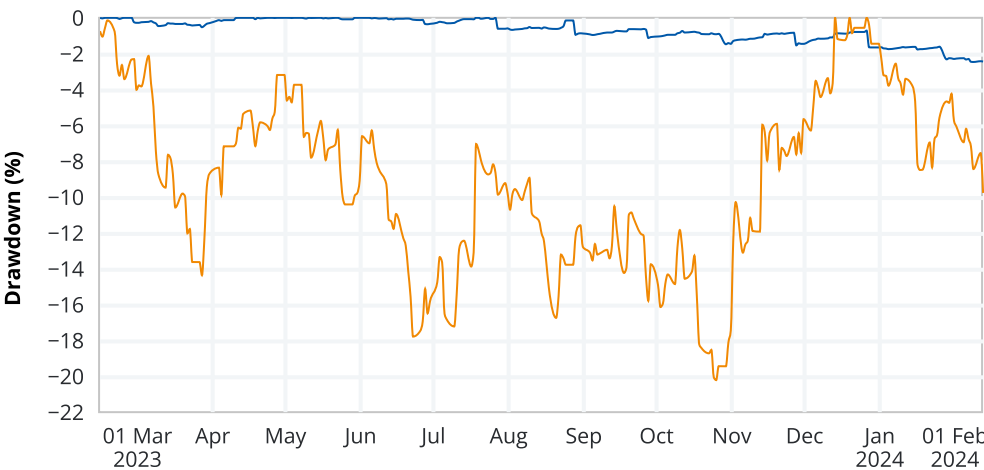
GROWTH (%) - FROM INCEPTION

1 Jun 2009 - 13 Feb 2024



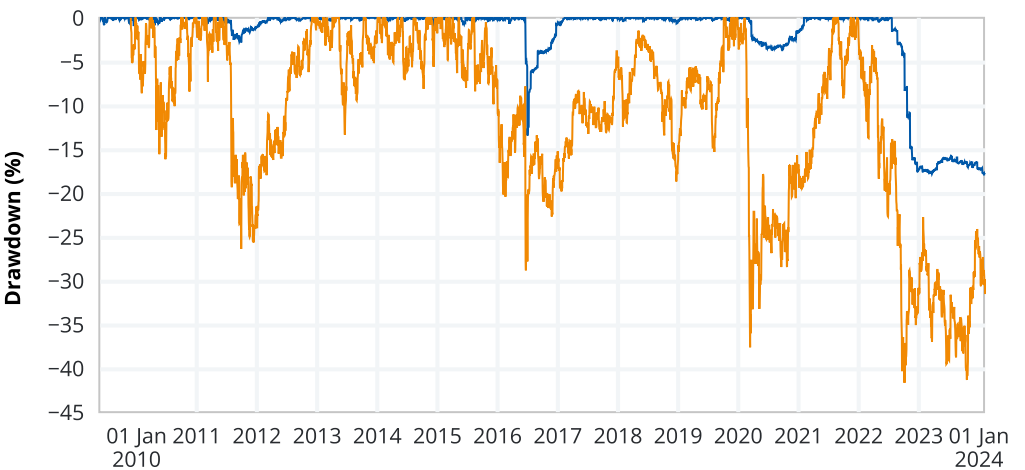
DRAWDOWN (%) - OVER 1 YEAR

14 Feb 2023 - 13 Feb 2024



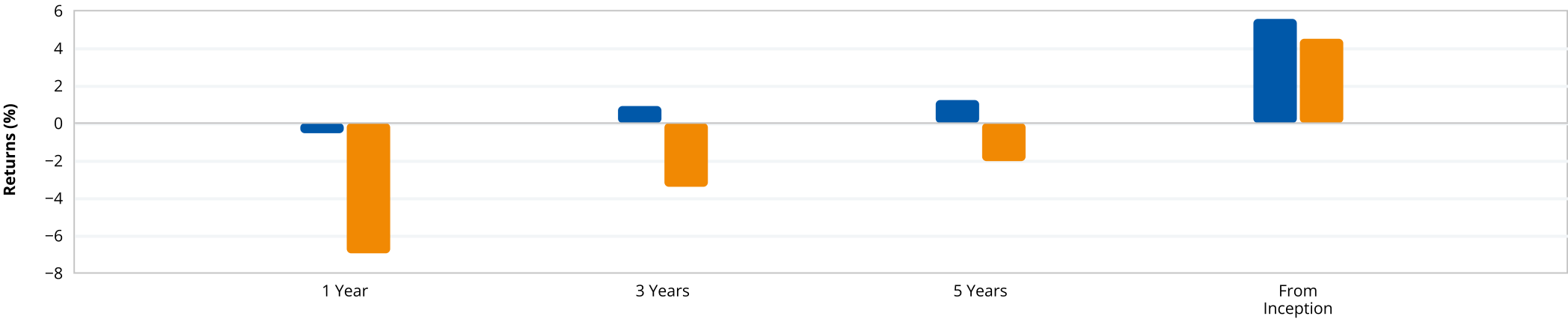
DRAWDOWN (%) - FROM INCEPTION

1 Jun 2009 - 13 Feb 2024



RETURNS

L&G UK Property Feeder I Acc FTSE 350 Real Estate Index



MONTHLY BREAKDOWN AND YEARLY TOTALS (%)

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YEAR
2024	-0.62	-0.18											-0.80
2023	-0.10	0.01	-0.05	1.12	0.69	-0.19	-0.07	-0.25	-0.21	-0.34	-0.04	-0.20	0.34
2022	1.24	1.32	1.77	0.92	1.00	0.99	-1.07	-1.44	-1.28	-7.31	-5.58	-1.63	-10.94
2021	0.74	1.65	0.77	0.63	1.23	0.88	1.49	1.25	1.59	0.86	0.91	4.99	18.31
2020	0.44	0.18	-2.02	-0.45	-0.71	-0.22	-0.17	0.36	-0.45	0.60	0.54	0.93	-1.01
2019	0.72	0.08	0.45	0.13	0.02	0.26	0.16	0.17	0.51	0.36	0.02	0.24	3.16

Capped to 6 years.

ANNUALISED ROLLING RETURNS (%)

	1 YEAR	3 YEAR	5 YEAR	INCEPTION
L&G UK Property Feeder I Acc	-0.54	0.91	1.23	5.56
FTSE 350 Real Estate Index	-6.95	-3.40	-2.03	4.50

CUMULATIVE RETURNS (%)

	1 YEAR	3 YEAR	5 YEAR	INCEPTION
L&G UK Property Feeder I Acc	-0.54	2.75	6.30	120.89
FTSE 350 Real Estate Index	-6.93	-9.80	-9.72	86.40

L&G UK Property Feeder I Acc FTSE 350 Real Estate Index

PERFORMANCE - OVER 1 YEAR

14 Feb 2023 - 13 Feb 2024

RETURNS (%)	-0.54	-6.95
VOLATILITY (%)	2.25	24.26
ALPHA	-0.09 *	
BETA	0.01 *	1.00
CORRELATION	0.02 *	1.00
SHARPE RATIO	-2.26	-0.37
SORTINO RATIO	-2.49	-0.58
MAX DRAWDOWN (%)	-2.46	-20.10

*Calculated over a 3 year period where history permits.

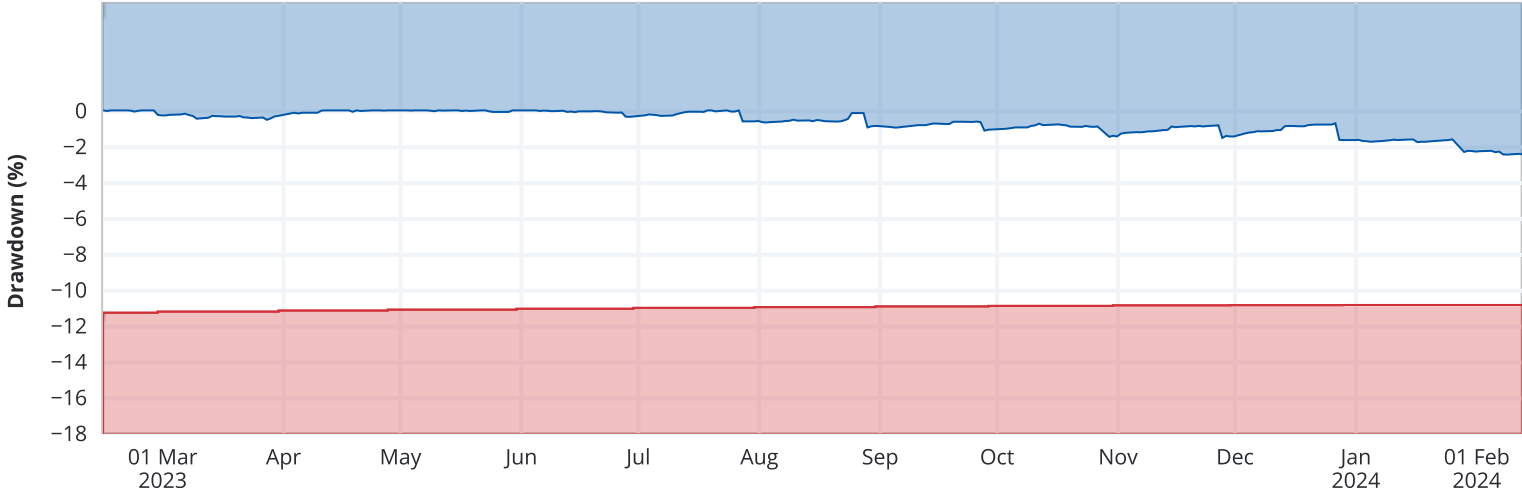
PERFORMANCE - FROM INCEPTION

1 Jun 2009 - 13 Feb 2024

RETURNS (%)	5.56	4.50
VOLATILITY (%)	4.38	20.21
ALPHA	0.31	
BETA	0.06	1.00
CORRELATION	0.25	1.00
SHARPE RATIO	1.04	0.18
SORTINO RATIO	1.34	0.26
MAX DRAWDOWN (%)	-17.89	-41.65

SIMPLE STRESS TEST DRAWDOWN (%)

14 Feb 2023 - 13 Feb 2024



Stress test notes

The chart shows the calculated drawdown over a trailing 12-month period. The Review Point is a potential intervention point. Any drawdown above this line indicates a typical drawdown in a normal market cycle. Should the drawdown exceed the Review Point, then this indicates that market conditions may be abnormal. This is the point at which immediate action should be considered.

DISCLAIMER

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