

TIME:Commercial Long Income | Performance update

Date: 03 August 2020

The Fund's property portfolio was valued by the independent valuer on 31 July 2020. The independent valuer has confirmed that material uncertainty continues to exist over the majority of the property portfolio due to the Novel Coronavirus (COVID-19) and consequently, the related material uncertainty clause remains on those properties within the property valuation.

Material uncertainty has been removed by the valuer on standalone food stores, logistic units and ground rents within the industrial and healthcare sectors which represents over 35% of the property portfolio. However, until such time as the valuer confirms that material uncertainty has been removed from the valuation of the remainder of the property assets, the Fund will remain suspended.

Taking the current circumstances into account and the ongoing issues faced by certain property sectors, the value of the portfolio has reduced by 0.65% of the Fund's net asset value (NAV). This reduction in value has resulted in the value of the Fund's shares falling by 0.54% for the month of July 2020. The Fund's total performance for the 12 months to 31 July 2020 was negative 0.15%.

This reduction in value has been driven by the Fund's exposure to the hotel and leisure sectors via long leases, which make up c25% of the Fund's net asset value, and the direct impact COVID-19 is having on their operations. In particular Travelodge (which represents approximately 6.1% of the Fund's NAV) who pursued a company voluntary arrangement, which was approved in June 2020. The independent valuer has this month reduced valuations on the relevant Travelodge assets by around 5% to reflect this information. This follows previous down valuations that now reflect an average decrease of 22% on the Fund's four individual Travelodge hotels since 29 February 2020.

Although in the period since lockdown the fund has fallen in value by approximately 2.63%, over the last 12 months the total return is only a marginally negative 0.15%, substantially outperforming its traditional commercial property OEIC peers in those periods. The main reasons for this outperformance are the specific features of long income (including the high Weighted Average Lease Term (WALT)) combined with tenant quality and also the lack of exposure to high street retail and shopping centre retail.

Rental collection rates for both Q2 and Q3 2020 are expected to be in excess of 80% of the quarter's rent due. However, some tenants have been allowed to defer their rent and we are in ongoing discussions with those tenants. Any concessions impact the income received by the Fund in the short to medium term, and consequently the income distributions in August 2020 and beyond, but by supporting tenants through this difficult period, the Fund is focused on the value of its property portfolio in the long term.

The resilience of the Fund's overall property portfolio is underpinned by its diversification over a number of sectors, with over 60% (by NAV) of its properties either let to the Government or in the most robust long income sectors during this period such as food stores, logistics and ground rents.

Whilst we anticipate some further capital value decreases in the long-let hotel and leisure sectors in the remainder of Q3 2020, we expect the decreases to slow. Our expectations are that by the time the fund reopens, later in 2020, dependent on the valuer's timings of removing the Material Uncertainty Clauses, we anticipate a return to positive performance with an annual income return of between 3% and 3.5% and the potential for modest capital growth.

As at 31 July 2020, the fund holds cash of around 9% of NAV (£40 million), has exchanged contracts for the sale of an asset for £35 million (to complete in August 2020) and is planning to sell at least another asset. This would create additional liquidity and enable the fund to increase its exposure to the logistics sector later this year when it completes the acquisition of its logistics contractual commitments later in 2020.

The property portfolio of the Fund will next be valued by the independent valuer at 31 August 2020 and we shall provide a further update on the Fund in early September 2020.

For more information please visit the [Document Library](#) and monitor our [website](#) for further updates.