TIME:Commercial Long Income | Investor Q&A

Date: 25 April 2022

TIME:Commercial Long Income invests in long income property which aims to deliver a consistent income stream from real estate let on long-dated, typically inflation linked leases for a period in excess of 15 years.

What has the performance of TIME:Commercial Long Income been?

Since the Fund was launched it has been managed with the focus on income consistency with capital growth prospects through acquiring property with long leases. This, along with the specific features of long income (including the visibility of income through the high Weighted Average Unexpired Lease Term, married with tenant quality and sector sustainability), are the main reasons for the performance of the Fund.

Throughout the period since the outbreak of COVID-19 in early 2020, the Fund has continued to deliver a consistent income return from its portfolio, despite the unprecedented challenges faced throughout the UK. The Fund's performance for the twelve months to 31 March 2022 has been 6.07% (comprising an income return of 3.52% and a capital gain of 2.55%), 5.10% over the last 3 years and 16.13% over the last 5 years (based on the Class A Gross Accumulation shares).

What is the current liquidity position of the Fund and are you intending to sell any more properties?

The Fund's cash reserves are around 8% and 9% in investments. The Fund's liquidity is reviewed at each dealing day and at this stage there is no intention to sell further properties, although strategic sales may be considered. This remains under constant review.

Does the Fund have any liquidity management tools within its Prospectus?

Yes. The Fund primarily invests in inherently illiquid assets, being UK real estate. In order to protect the interests of our existing shareholders, the Fund has a number of tools it can apply. These liquidity management tools and the consequences for shareholders are set out in Clause 25 of the Prospectus and detailed below:

Dilution adjustment /Swing price	When the Fund is in net subscriptions and buying property, it is typically priced on offer i.e. NAV + costs of property acquisitions. Should the Fund experience large redemptions requiring it to sell property, it may 'swing' to 'Bid' (NAV less the cost of selling property) or simply to NAV. The total swing from offer to bid is typically 5%-7%.
Large Deal Provision	It is possible, in certain circumstances, to effect instructions (expressly where the value of those instructions exceed £50,000) for subscriptions or redemptions of shares on a different pricing basis to the published price. The ACD also has the discretion to have such large deals refused until such time as there is no prejudicial impact to the best interests of shareholders. The large deal provision looks to reflect the cost of buying or selling a property.
Redemption charge	Charge on the redemption of such shares of up to 5%.
Market timing charge	Where a particular shareholder has engaged in short-term trading, effect a charge of up to 3% if a redemption is made within 180 days of the original subscription.
Deferral of redemptions	Where requested redemptions received across all classes of a fund for a particular dealing day exceed 10% of the NAV, the ACD may defer redemptions to the next dealing day.
Refusal of redemptions	The ACD may reject in its discretion any application for the purchase, redemption, transfer or conversion of Shares. This would be deployed for a whole range of reasons including to protect liquidity of the fund or other reasonable grounds.
Suspension of Dealing	Always available.

Please refer to the Fund's Prospectus published on our website for the full detail (specifically Clause 25 covering dealing charges and suspension).

When can these liquidity tools be used?

They may be used at any time where the ACD considers it is in the best interests of the shareholders to do so, in order to protect investors' interests (those coming in and out of the Fund as well as those who are remaining invested). In simple terms, during periods of consistent subscriptions or redemptions, certain tools are used when it is believed that there may be a need to buy or sell properties and therefore incur the associated transaction costs. These tools ensure that relevant subscribing or redeeming investors bear their proportion of the cost of buying or selling a property.

How do you intend to use any of these liquidity management tools?

Yes, where it is considered to be in the best interests of shareholders. For instance, in March 2021, to ensure we were treating our shareholders fairly we utilised the dilution adjustment. The Fund, therefore, swung its price from 'Offer' pricing to NAV prior to the reopening of the Fund for dealing. The impact of this was a single downward movement of circa 4.6% on the price. Whether the ACD would use any other liquidity tool in the future would be reviewed on each dealing day.

Can you explain the pricing basis of TIME:Commercial Long Income?

The Fund is priced with a single price and may apply a dilution adjustment. When the Fund is in net subscriptions and buying property, it is typically priced on 'Offer' (NAV + costs of property acquisitions). Should the Fund experience a period of redemptions requiring it to sell property, it may 'swing' to 'Bid' (NAV less the cost of selling property) or simply to NAV. For more detail, please refer to our ***'Guide to the Dilution Adjustment'.***

Why had the ACD chosen to use the dilution adjustment in March 2021?

Given the period of suspension and expected period of redemptions, the Fund had made a number or property sales to achieve a prudent level of liquidity to reopen. Unless a dilution adjustment is applied, redeeming shareholders would not bear their share of the associated property transaction costs and these costs would otherwise be borne by the Fund and its remaining shareholders. The use of the dilution adjustment was the most clear and transparent tool that ensures that the Fund is acting in the best interest of shareholders.

How was the swing price level calculated?

The swing of the price has been calculated based on the weighted property acquisition costs of the portfolio being reduced from the price of the shares of the Fund.

Why did the Fund's price move to NAV?

During the period of suspension, the Fund increased liquidity through the sale of a number of properties. The associated transaction costs had therefore been borne and were reflected in the NAV price. Given the level of liquidity created in the Fund and the expected future redemptions, it is not anticipated that significant property sales will be required at this time.

In what circumstance would the Fund's price move from NAV to 'Bid'?

In the event that we had to sell further properties to meet redemptions beyond current cash levels, then it is likely we would need to swing the price fully down to 'Bid'. This additional swing could be circa 1%.

In what circumstance would the Fund's price move from NAV back up to 'Offer'?

When the Fund returns to a steady state of net subscriptions and is anticipating acquiring significant further property, it would expect to swing back up to 'Offer'.

What is the outlook for the Fund?

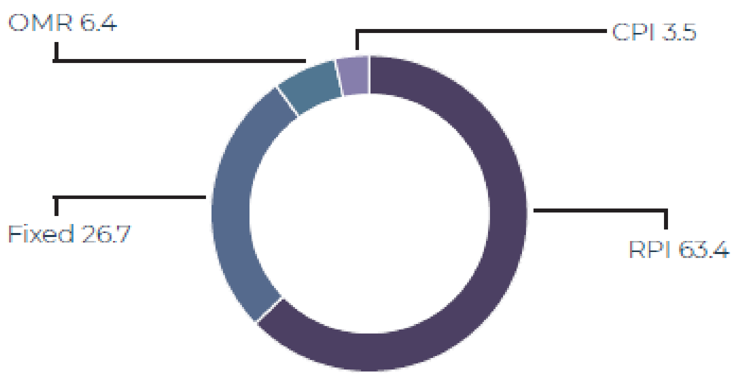
The Fund has shifted its sector exposure, with the logistics sector now the largest within the property portfolio at c31%, and no exposure to the office sector. The Fund has never had exposure to the more at-risk sectors such as high street retail and shopping centres.

Sector weighting (%)

	Long Lease	Ground Rent	Total
Logistics	31.3	0.0	31.3
Leisure	17.0	5.7	22.7
Hotel	16.9	5.1	22.0
Supermarket	11.0	0.0	11.0
Car Showroom	4.0	0.0	4.0
Healthcare	0.0	3.1	3.1
Retail Warehouse	1.6	0.5	2.1
Nursery	0.0	1.8	1.8
Mixed (Industrial/Office)	0.0	1.1	1.1
Other	0.0	0.9	0.9

The Weighted Average Unexpired Lease Term ("WAULT") of the portfolio is 47 years which results in significantly greater visibility of income than in traditional commercial property, and hence the name, long income. In a period where rental growth in many sectors of traditional commercial property remains uncertain, one of the key features of long income is the comfort provided by structured rent reviews as compared to open market reviews traditionally associated with commercial property. Within the portfolio 94% of the rent reviews are indexed linked or have a fixed percentage growth. It is worth noting that the portfolio currently has no voids.

Rent review type (%)



The Fund and its property portfolio are well positioned and has performed well over the 2021/22 period, and we anticipate the positive performance in property values to continue, with an annualised income return of circa 3.5% for 2021/22, with that income return growing into 2022/23.

The Fund's investment objective and policy has remained unchanged and the Fund will continue to pay distributions in the normal manner every quarter.

Getting in touch

Should you require any further assistance please do not hesitate to contact our Client Services Team on 0345 600 1213 or by emailing enquiries@time-investments.com.

For all financial advisers, please speak to your Business Development team for further information. If you need to remind yourself of the contact details of your local BDM, please check on our website, time-investments.com/BDM.