# TIME:Freehold | Investor Q&A

**Date:** April 2021

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## I. Performance

### How has the Fund performed over the recent period?

Throughout the period since the initial COVID-19 lockdown, the Fund has continued to deliver a consistent income and with some capital growth from its portfolio of circa 63,500 ground rents. During this period, the Fund's share price has increased with a total return for the 12 months ended 31 March 2021 of 4.38% comprising a capital loss of 0.21% and an income return of 4.59%.

The Fund's income return is expected to continue to deliver in excess of 4% per annum. In the current market, where interest rates and bond yields are at historic lows, and even traditionally reliable dividend paying equities have reduced or been stopped altogether, we believe that the Fund can continue to offer reliable income returns and the prospect of an element of capital return.

## II. Liquidity

### What is the current liquidity position?

Since the Fund was launched it has been managed with downside risk to the fore. Liquidity management has remained robust throughout the last, almost five years of uncertainty, caused by the Brexit vote and subsequent volatility in the market.

The Fund holds around 10% of its net assets in cash and liquid investments, with cash forming the overwhelming element of this liquidity. The Fund also has a £25 million revolving credit facility from RBS, principally for acquisitions and liquidity management purposes. The facility is undrawn, further strengthening liquidity within the Fund. We feel that the Fund is adequately positioned from a liquidity perspective, despite the current headwinds.

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

Yes. The Fund primarily invests in inherently illiquid assets, being UK real estate. Given this primary asset class, there is a mismatch between the frequency of redemptions of the Fund, being on a monthly basis, and the speed at which the underlying real estate assets or investments can be sold. Accordingly, in recognition of this inherent liquidity mismatch, the ACD has implemented liquidity management systems and procedures and has identified when these tools and arrangements may be used in both normal and exceptional circumstances.

From an operational perspective, the minimum operating liquidity level should be established to maintain a sufficient level of liquidity beyond the immediate cash needs of the Fund.

The Fund may also consider what its target maximum for operating liquidity is before excess liquidity has a negative effect on performance. Typically, the Fund will seek to operate with liquidity (cash + cash available to be drawn) in the region of 10% of Net Asset Value. However, this may vary depending on the Investment Manager's assessment of the risk of outflows in the form of net redemptions.

In order for the Fund's optimum level of liquidity for its operations to be calculated, the Investment Manager will take into consideration the following factors:

- Cash flow requirements for asset acquisitions for the immediate future (one year);

- Projected subscription inflows and redemption outflows from the Fund;
- Servicing requirements and borrowing repayments requirements for the immediate future (one year);
- Forecasted revenue collections for the year;
- Projected asset sales or lease extension income receipts for the year;
- Forecasted operating expense outflows;
- Forecasted income distributions to half yearly distributions to shareholders
- Any other factors which may have an effect on available liquidity.

As part of this process the Investment Manager prepares detailed forecasts and cash flows in respect of the Fund's projected assets and liabilities. This type of information forms part of the Fund's cash flow forecast statement.

## How does this lead to applying liquidity management tools?

It is a balancing act and where net outflows are such that the Fund may need to divest itself of property or investments in order to pay out the redemptions, the ACD may apply liquidity tools either to manage the flow of redemptions or the price that redeeming investors receive.

These liquidity management tools and the consequences for Shareholders are set out in Clause 25 of the Prospectus and the principal tools are detailed below:

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| **Dilution Levy** | In circumstances where the ACD is required to sell underlying investments quickly in response to redemption requests, there may be an impact on the sale price that the investments can achieve and any impact on the sale price would be an indirect cost incurred by the Fund. The adjustment protects Shareholders from the impact of transaction costs. |
| **Large Deal Provision (LDP)** | The ACD may effect instructions (exceeding £50,000) for subscriptions or redemptions of shares on a different pricing basis to the published price. Can also, at the discretion of the ACD, 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 selling a property or investments, which would currently be typically around 5%-6% reflecting the costs of sale and any discount to the prevailing valuation. |
| **Redemption charge** | Charge on the redemption of such shares (exceeding £250,000) of up to 5%. |
| **Fair value pricing** | The ACD may deploy fair value pricing in the event of uncertainty in the valuation of assets held by the Fund. This is likely to result in the discouragement of Shareholders seeking to redeem their Shares where they may receive a price per Share lower than the intrinsic value of the Fund on a price per Share basis. |
| **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. |

It is worth noting that if an investor seeks to redeem an investment that would not be deemed large (i.e. under £50,000) through a platform that is also redeeming other investors at the same time, but together they amount to more than £50,000, the Fund will only see one aggregated large redemption and all underlying investors redeeming through the platform that day will be impacted by the large deal provision.

Please refer to the Fund's Prospectus published on our website for the full detail (specifically Clause 25 covering liquidity tools which effect the redemptions by Shareholders).

## 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, for redemptions, these tools are used when it is believed that there may be a need to sell property or investments as a result of a single redemption or a number of redemptions on a given date or when it is believed there is a pattern of continuing redemptions over a period. The focus therefore will be on the effect on the liquidity in the Fund (current and future), so that large redeemers bear their proportion of the cost of selling property or investments in order to meet the redemptions.

The liquidity tools are expected to be used reasonably and be able to be justified. In applying these liquidity management tools the ACD will act in the best interests of shareholders.

### What was the rationale for the ACD applying a large deal provision for the 12 February 2021 dealing day?

Prior to the 12 February 2021 dealing day the Fund had cash and liquid investments of c12%. This liquidity was to reduce as a result of large redemptions submitted for the 12 February 2021 dealing day. This necessitated the Fund disposing of investments (albeit not immediately) in order to restore its liquidity to an appropriate level.

Therefore, TIME:Freehold intended to dispose of part of its investment in TIME:Commercial Long Income (CLIP). However, it is very likely when CLIP re-opens for dealing that it will itself apply a large deal provision to redeeming investors, such as TIME:Freehold, for the cost of it selling its assets. This charge is likely to be in the region of 5-6% (currently calculated at 5.61%). On the basis that TIME:Freehold will be charged this large deal provision by CLIP when it exits, TIME:Freehold consequently passed on this charge to those investors who made large redemptions from TIME:Freehold for the 12 February 2021 dealing day.

Unfortunately, as the vast majority of the investors in the Fund have invested through nominees or platforms, when redemptions are placed, it is not possible for us to fairly determine which underlying beneficial owners are redeeming. It would also not be administratively possible for nominees and platforms to all provide this information to us in respect of each dealing day. As a result, the ACD exercised its discretion to apply the large deal provision at the discount rate of 5.61% on large redemption deals above £125,000 based on the deals submitted on a legal owner basis.

Regrettably, this does mean investors who use platforms will have their deals aggregated, however in applying a large deal provision it enables small redeemers to redeem without charge, whilst a dilution levy must be applied to all redemptions, regardless of size.

Having reviewed the alternative liquidity management tools, applying a large deal provision was considered the fairest in the circumstances.

### Will you be applying a large deal provision in the future?

We continue to monitor the liquidity of the Fund and its need to impose a large deal provision to ensure that large redeemers fairly meet the costs of realising investments to meet their redemptions. It is likely at this stage that a large deal provision would similarly be applied by the ACD in the future, in order to protect existing shareholders of the Fund. Whether a large deal provision is applied is reviewed before each dealing day.

## III. The property portfolio and the Fund’s building safety initiatives

### What is the composition of the Fund’s property portfolio?

The Fund is the freeholder of around 64,000 UK residential ground rent properties valued at almost £240 million out of a NAV of around £280 million. The property portfolio consists primarily of residential flats (88%) with the balance mainly split between houses and maisonettes.

### As the freeholder, what are the Fund’s responsibilities on building safety initiatives?

As a freeholder, the Fund has certain responsibilities in respect of its property portfolio, mainly centred around its flats.

It is important to distinguish that for approximately 75% of the Fund’s property portfolio, the responsibility to manage the property, including aspects of fire safety such as cladding, is that of either the leaseholders’ Resident Management Company (“RMC”) or Right to Manage Company (“RTM”). Although this responsibility rests with the leaseholders’ RMC or RTM, the Fund will still seek to monitor what actions are being taken on the property and will liaise and assist the RMC or RTC, where appropriate.

Over the remaining 25% of the Fund’s property portfolio, where the leaseholders have not set up an RMC or RTM, the Fund has the responsibility for the assessment and management of fire risk, including cladding on behalf of the leaseholders with any related costs billed to them through the service charge. As a result, the Fund has appointed and delegated these duties to a specialist property management company who carries out any relevant tasks, such as fire risk assessments, and maintains a register of the required information.

## What has the Fund done to review building safety across its portfolio?

The Fund has a database of its property portfolio and has sought to carry out reviews on those properties where potential issues may be, including new fire risk assessments, cladding tests and intrusive surveys.

In addition, a specialist fire risk advisory firm and a legal firm specialising in fire safety matters have been engaged on behalf of the Fund and their engagement instruction includes a review of the safety procedures in place as well as reviewing the programmes for specific properties where potential issues are identified.

## In the event of an issue being identified, what process is in place to manage and mitigate the issue?

Where issues have been identified it is a process of working with all parties, including leaseholders, RTMs and RMCs (where applicable) to establish the best way forward to ensure safety and the appropriate works are carried out where necessary.

The cost of these works typically rests with the leaseholders. However, the freeholder will assist the leaseholders, for example, where there may be recourse to the original developer or construction warranty company.

Additionally, the freeholder will assist leaseholders to access the Government's Building Safety Fund. Consequently, the Fund's assessment of fire safety issues across its property portfolio continues to be under active review.

## Does the Fund have any cladding issues that are cause for concern?

Generally speaking, there are a number of different types of cladding, some of which are safe. Issues arise when cladding is either unsafe or of an as yet unknown standard.

Unfortunately, in many people's minds following the Grenfell tragedy, a reference to cladding creates the image of a property completely covered in an unsafe flammable material, such as ACM cladding.

Identifying buildings with ACM cladding, the type seen at Grenfell, was prioritised as an exercise due to the high-risk nature of the materials in question. Of the properties within the portfolio over a height of 18 metres (generally considered to be high-rise), only two blocks were identified as having the ACM cladding. Both the properties in question are managed by the leaseholders through their RTM and works are being carried out to replace the cladding that existed on parts of each building, with these works being funded by the Government's ACM cladding fund, the leaseholders and the original developer.

In practice, where a cladding issue exists, for a majority of properties, it is limited to specific sections of the property; or the cladding material itself is not the issue and rather, there may be an issue regarding the cladding system and how it has been constructed, for example, a lack of fire breaks or compartmentalisation.

In order to establish the extent to which some of these issues exist, intrusive specialist surveys are undertaken. Once a threshold of over 18 meters in height is reached the fire safety risk significantly increases due to the challenges of the deployment of certain firefighting equipment. For context, the buildings owned by the Fund over 18 meters in height for which the Fund has management rights (i.e. no leaseholders' RMC or RTM is in place) and therefore responsibility for fire safety, represents approximately 8% (£19 million) of the Fund's property portfolio.

The relevant surveys for such buildings have either been carried out or are in progress (and expected to be completed soon) with any cladding system concerns registered with the Government's Building Safety Fund. Where the Fund does not have management rights and is not responsible for the fire safety, we still engage with the responsible parties to ascertain how they are progressing with the above matters including surveys and the Building Safety Fund.

The Fund continues to review fire safety matters across the portfolio.

## IV. The Government’s reform of the residential leasehold market

**Is the Government introducing legislation to reform the residential leasehold market? If so, how is the Fund affected?**

In January 2021 the Government announced proposals to bring forward in the next session of Parliament for legislation to reform the residential leasehold market. These proposals follow from the recommendations for leasehold reform made to the Government by the Law Commission in July 2020. The main focus of the Law Commission’s recommendations was to suggest methods of making enfranchisement and extensions of leases quicker, easier and cheaper, saving leaseholders of houses and flats money, whilst ensuring sufficient compensation is paid to landlords to reflect their legitimate property interests.

The Government has now announced proposals to implement these recommendations. At this stage the full detail has not yet been set out by the Government for the method of calculating the value payable by a leaseholder to a freeholder on the enfranchisement or the extension of a lease. The Fund’s independent valuer has advised that the Government’s statement of 7 January 2021 largely reflect the recommendations as put forward by the Law Commission in July 2020. Consequently, the value of the Fund’s property assets increased during the month to 31 January 2021. They and we await confirmation of the Government’s detailed proposals for legislative changes within the residential leasehold market

It is expected that the Government will announce details of how it proposes to set all future ground rents on new buildings to zero during this 2021/22 Parliamentary term. These changes are not expected to have any impact on the Fund. The leasehold reform Bill covering the more complex detail affecting existing leases is not expected to be published until the following Parliamentary term 2022/23, at the earliest. We shall continue to monitor and review the fund’s portfolio in light of the Government’s residential leasehold market reforms.

### 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.