

ARC TIME Freehold Income Authorised Fund (“TIME:Freehold” or the “Fund”) ARC TIME Freehold Income Authorised Feeder Trust (“Feeder Trust”)

Suspension of dealing (valuer’s material uncertainty) and Fund Performance

Investor Q&A – 12 January 2024

Suspension Background

TIME:Freehold’s independent valuer, BNP Paribas Real Estate has, as of 10 November 2023, expressed material uncertainty regarding the Fund’s residential property valuations. This is as a direct result of the Government’s announcement of a consultation (‘Modern leasehold: restricting ground rent for existing leases’) published on 9 November 2023, following the King’s Speech of 7 November 2023 announcing the Leasehold and Freehold Reform Bill.

Accordingly, as a direct result of the Government’s consultation, dealing in the shares of the Fund (and units in its Feeder Trust) has been temporarily suspended with immediate effect, being as of 9 am on Monday 13 November 2023 in accordance with the FCA Handbook. The suspension has been discussed and agreed with NatWest Trustee and Depositary Services Limited, the depositary to the Fund and the FCA has been notified.

The Fund is not temporarily suspending for liquidity nor performance purposes. Without the material uncertainty opinion from the independent valuer, which results from the Government’s announcement of the consultation, the Fund would have continued to accept dealing instructions and operate as normal.

Parliament has commenced its readings of the Leasehold and Freehold Reform Bill in the House of Commons, which does not include reference to capping existing ground rents as proposed in the consultation. The Bill includes many of the recommendations from the Law Commission report on leasehold enfranchisement published in July 2020, but there are a few additions. The Bill is in draft form, has gone through its second reading and is at Committee stage, and we expect further amendments to be introduced over the coming months, including potentially the capping of existing residential ground rents. This may have negative consequences for the Fund. Should any new information come to light, the independent valuer will take that into account at the next relevant valuation point.

Why has this happened?

On 9 November 2023 the Government opened and published this consultation and within the document it identified five proposed options to cap existing residential ground rents. The Government is now seeking feedback from leaseholders, freeholders and other interested parties.

The consultation [Government consultation modern leasehold restricting ground rent for existing leases](#) outlines five proposed options including;

- Capping ground rent at a peppercorn
- Capping ground rent at an absolute maximum value
- Capping ground rents at a percentage of the property value
- Capping ground rent at the original amount it was when the lease was granted
- Freezing ground rent at current levels

As a direct result of the Government’s announcement of a consultation the Fund’s valuers have placed a “Material uncertainty” clause on the Fund, which has unfortunately meant that dealing in shares in TIME:Freehold has been temporarily suspended with immediate effect.

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How long will the Fund be suspended?

It is currently unclear how long the Fund's suspension will continue. The consultation deadline for feedback has now been extended to 17 January 2024 after we, together with several others in the residential ground rent industry formally objected to the unusually short time frame set by the Government. It may take some time before we receive clarity from the Government on the final outcome of the consultation and the resulting proposed legislation. However, until such time as the independent valuer confirms that material uncertainty in the valuation of the Fund's residential ground rent assets no longer exists, the Fund will remain suspended and this is likely to be the case at least until the Government clarifies its position. The decision on whether to remain suspended will be under continuous review (and we shall report this to the Financial Conduct Authority ("FCA") at least every 28 days in accordance with the FCA Handbook).

For more information as it becomes available, please visit [our website](#).

What will happen during the suspension?

The Fund will continue to be managed in accordance with its investment objective and will pay its six monthly distributions in the normal manner. We will also continue to publish monthly prices, which can be viewed on [our website](#), enabling you to value your investment. However, any dealing instructions received prior to the suspension announcement and any we receive during this period of suspension will be rejected until such time as the suspension on dealing in the Fund is lifted, which shall continue only for as long as it is justified.

When does the Government's consultation close?

The consultation commenced on 9 November 2023 and the original closing date of 21 December 2023 has been extended to 17 January 2024.

Where can I find details of the Government's consultation announced on 9 November 2023?

<https://www.gov.uk/government/consultations/modern-leasehold-restricting-ground-rent-for-existing-leases/modern-leasehold-restricting-ground-rent-for-existing-leases>

What is the objective of the Government's consultation on capping existing residential ground rents?

The objective of the Government's consultation is to assess the potential introduction of a cap on current residential ground rents. This consultation aims to gather insights and perspectives from stakeholders to understand the impact and feasibility of such a measure.

Why does the Government want to cap ground rents?

The consultation stems from a belief that leaseholders have been unfairly treated.

What are the potential implications of implementing a cap on current ground rents?

There are numerous implications that could impact the Fund as a result of capping ground rents. Until the consultation is completed and detail on any decision provided, it is difficult to set out these implications.

What action will the Fund be taking?

We are engaging with other freeholders, various industry bodies and associations to proactively contribute to this consultation. Additionally, we will be taking legal advice to ensure a comprehensive and informed input is made to the Government's consultation along with assessing the potential options for the Fund to protect shareholders' interests.

Who is the Fund's independent valuer?

BNP Paribas Real Estate UK.

Who made the decision to suspend dealing?

When material uncertainty is introduced by an independent valuer to more than 20% of the portfolio of an authorised scheme, such as the Fund, it is a requirement of the Authorised Corporate Director to implement a suspension under the terms of the FCA Handbook. This decision was discussed and agreed with Fund's depositary, NatWest Trustee and Depositary Services Limited. The FCA has been notified.

Does the material uncertainty just relate to the residential property assets of the Fund and what proportion of the Fund's NAV does it represent?

Yes. Material uncertainty relates just to the Fund's portfolio of residential ground rent assets, currently valued at around £160 million, which comprises around 90% of the Fund's NAV, all of which is affected by the Government's announcement.

Has the Fund suspended for liquidity or performance purposes?

No. The Fund has suspended as a direct result of Government's announcement of a consultation ('Modern leasehold: restricting ground rent for existing leases') published on 9 November 2023 following the King's Speech of 7 November 2023 announcing the Leasehold and Freehold Reform Bill.

Does the Fund have any bank debt drawn?

No. The Fund has a £20 million revolving credit facility with RBS, which is undrawn.

I am invested in the Feeder Trust, is that also suspended?

Yes. ARC TIME Freehold Income Authorised Feeder Trust is the dedicated feeder trust to the Fund. Consequently, dealing in the units of the Feeder Trust was also suspended at 9 am on 13 November 2023.

Can I place any subscriptions or redemptions in the Fund?

No. Dealing instructions received cannot be accepted in the Fund (or its Feeder Trust). This includes any instructions placed prior to the date of suspension but which remain subject to the next dealing day. This also includes regular saving contributions. Investors who subscribe through a platform should contact their platform provider for further information. We will notify investors and their advisers as soon as dealing in the Fund recommences.

I submitted a subscription / redemption instruction for dealing since 13 November 2023, will this be processed?

No. Dealing in the shares of the Fund was suspended as at 9 am on 13 November 2023. Therefore, no subscription or redemption instructions can be dealt on that or any subsequent dealing date until after the suspension has been lifted.

Will the independent valuer continue to value the property portfolio during the period of the suspension?

Yes. The independent valuer will continue to provide a valuation of the Fund's property portfolio each month. However, the suspension will continue while their valuation reports contain a material uncertainty clause in relation to the value of the Fund's property portfolio.

Will the Fund's investment objectives change during the period of suspension?

No. The Fund will continue to be managed in line with its investment objectives and we will report on performance and any updates as normal.

Will the suspension affect my income distributions?

The Fund should continue to make distributions as usual every six months. For those holders of income shares, the next distribution will be paid in cash and for those holders of accumulation shares the next distribution will be accumulated into the capital value of the shares as usual. The next such six monthly distribution should be made on or around 31 May 2024, as usual.

Will the suspension affect the financial statements for the Fund?

No. We will continue to publish financial statements and make available to shareholders and their advisers as normal. The Fund's half year report for the six months to 30 September 2023 has been published and is available on the website.

Will you continue to accept instructions to transfer shares?

Yes. We will continue to accept instructions to change the registration of shares via stock transfer.

Will switch instructions be permitted?

No. Any instructions to switch between share classes will not be permitted.

Will you write to me to tell me the suspensions have been removed?

Yes. We will write to shareholders and their advisers to notify the lifting of the suspension. We will also provide investors and their advisers with up to date information when available via the TIME website.

Will the Fund Manager be recording a webinar to provide an update to advisers?

Yes. Nigel Ashfield, the Fund Manager and TIME's Managing Director provided an update via a webinar on 15 November 2023. Please contact your Business Development Manager if you would like to watch the recording of the webinar or any subsequent videos.

When will you next provide a written update?

We shall issue an update when we have received further clarity from the Government.

Does it make any difference if an investment in the Fund is within an ISA?

No. Until the suspension is lifted, you will not be able to buy or sell any shares.

How can I find out the value of my investments in the Fund?

As always, the Fund will continue to publish the value of all its share classes in the usual way on [our website](#), as well as other information as and when it is released. This will also apply for the unit classes of the Feeder Trust.

Are any of TIME's other funds or services affected by the Government's Consultation?

No. TIME's other funds and services are not impacted by the potential new legislation because the Government's Consultation only relates to residential ground rents.

Performance: How has the Fund performed over the recent period?

The Fund's independent valuer, BNP Paribas Real Estate UK, has recognised a reduction in the Fund's residential property portfolio as at 30 November 2023, which resulted in a reduction of the Fund's net asset value per share by 8.5%* on its monthly pricing day of 12 December 2023. This was as a direct result of the Government's announcement of the consultation to potentially cap existing residential ground rents. The independent valuer has not changed the value of the Fund's residential property portfolio at the latest month end valuation of 31 December 2023 (for the monthly pricing day of 12 January 2024). However, as a result of rental income and lease extension premiums received in December, the Fund's share price increased at its latest monthly pricing day by 0.45%*, which includes income of 0.55% and a capital fall (inclusive of capitalised expenses) of 0.10%.

The Fund has generated a total return for the twelve months to 31 December 2023 of -2.80%*, which includes income of 4.77% and a capital return of -7.57%.

This is inclusive of the Fund's distribution of its income for the six months period ended 30 September 2023 at the end of November 2023. The Fund distributed income of 2.39%*.

*based on a Class A Gross Accumulation Share Class

The Fund's next distribution for the six months ended 31 March 2024 will be made at the end of May 2024.

To provide you with a more detailed valuation update following the valuation fall of the Fund's residential property portfolio at its previous valuation on 30 November 2023, the Fund Manager, Nigel Ashfield recorded a short video. Please contact your Business Development Manager if you would like to watch the recording of this or any subsequent videos.

Liquidity: What is the current liquidity position?

The Fund held cash and liquid investments of £9.3 million (5.1% of net assets) and an undrawn loan facility from RBS of £20 million principally for acquisitions and liquidity management purposes. As a result the Fund has total liquid capacity of up to £29.3 million (16.0% of net assets).

In addition the Fund holds other investments in commercial long income property of £20.8 million (11.4% of net assets).

The Fund's strategy remains unchanged, and the portfolio consists predominantly of residential ground rents with additional investments in, for example alternative long income assets meeting the Fund's investment objective.

We shall continue to monitor and review the Fund's portfolio in light of the Government's residential

leasehold market reforms and building safety initiatives.

The Fund will continue to be managed in accordance with its investment objective and will pay its distributions in the normal manner every six months.

What is the composition of the Fund's property portfolio?

The Fund is the freeholder of around 50,000 UK residential ground rent properties valued at around £160 million out of a NAV of circa £183 million. The property portfolio consists primarily of residential flats (85%) with the balance split between houses and maisonettes. The Fund has an average ground rent that it collects from its leaseholders of around £146, equivalent to less than £3 per week.

The Fund also owns a commercial ground rent property, valued at £5 million.

As the freeholder, what are the Fund's responsibilities on residential building safety initiatives?

As a freeholder, the Fund has certain responsibilities in respect of its property portfolio, 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 with 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 found, 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 the safety of tenants and that any appropriate works are carried out where necessary.

The objective of the Building Safety Act 2022 is to implement the Government's ambition for long lasting reform of the building safety system. With the Building Safety Act 2022, the Government clearly set out that they expect that remediation of buildings should be funded by those responsible parties such as the developer or cladding manufacturer. Additionally a pledge has been agreed with developers with the majority of major developers, including the UK's 10 largest developers, signing up to a contract by which they have agreed to pay for the remediation of properties with life critical fire safety defects in building of over 11 metres in height which they have developed over the last 30 years.

In assessing fire safety risk at properties, a new risk based approach has been developed called PAS9980 which sets out guidance for a more holistic way of appraising fire safety at properties and identifying the required remediation works.

As part of the process, the responsible party (freeholder, RTM or RMC) will assist the leaseholders, where there is recourse to the original developer or construction warranty company. Additionally, the freeholder will assist leaseholders to access the Government's Building Safety Fund where applicable. 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?

There are several different types of cladding, some of which are safe. Issues arise when cladding is either unsafe or where it is of an 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), two blocks were identified as having the ACM cladding. Both the properties in question are managed by the leaseholders through their RTM and works have been 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 and the original developer.

In practice, where a cladding issue exists, for most 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.

To establish the extent to which some of these issues exist, intrusive specialist surveys are undertaken under the PAS9980 guidance. Once a threshold of over 18 metres in height is reached the fire safety risk increases due to the challenges of the deployment of certain firefighting equipment. For context, the buildings owned by the Fund over 18 metres in height represent approximately 12% (£20 million) of the Fund's residential property portfolio, of which the majority require no remediation.

Surveys for relevant buildings have either been carried out with any cladding system concerns registered with the Government's Building Safety Fund and/or the original developer contacted. Where the Fund does not have management rights and is not responsible for 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.

In 2022, the Building Safety Act 2022 came into force, resetting building safety in England. This established the principle that leaseholders must be protected and that the industry responsible should pay to fix the problems it created. As mentioned earlier a pledge was agreed with developers with the majority of major developers, including the UK's 10 largest developers, signing up to a contract by which they have agreed to pay for the remediation of properties with life critical fire safety defects in building of over 11 metres in height which they have developed over the last 30 years.

Most of the portfolio is below 11 metres in height. A review by the Fund's independent valuer of the element of the portfolio above 11 metres in height and where remediation may need to take place has concluded that the value of these properties net of remedial costs (and therefore subject to material uncertainty in respect of remedial costs), is less than 1% of the Fund's net assets.

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

For further information relating to the suspension including our [Investor notification](#) please visit our [website](#).

[Getting in touch](#)

Should you require any further assistance please do not hesitate to contact our Client Services Team on 034 5600 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, timeinvestments.com/BDM.

TIME Investments
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