

Asset class insight: Property

An in-depth review of the Property investments held in PruFund. These reviews are updated every six months with the latest details available at the time of publishing.

Introduction

This update from the M&G Treasury & Investment Office (T&IO) provides an insight into the characteristics of the property portfolio within the PruFund range of funds and the strength of the M&G Real Estate team who T&IO work with to create, manage and monitor underlying investments.

This update covers the PruFund Growth, Cautious and Risk Managed Ranges. It doesn't cover the PruFund Planet Range.

We hope to highlight the key differentiators and strengths including;

- Leveraging off the resource and expertise within M&G Real Estate
- The global exposure to high quality assets
- Using segregated pools of assets or large scale institutional funds to best capture opportunities
- Importance of active management
- Ability to invest in development projects
- The ongoing work to enhance the 'environmental' credentials of portfolios

PruFund Growth invests into over 160 property assets globally. The majority are directly held assets or joint ventures, although some exposures are via collectives/indirect funds, which themselves invest in 100s of underlying properties.

The M&G Real Estate team, who run the underlying property funds within PruFunds, focus on income as the principal driver of long-term return but also look to achieve capital growth through exploitation of market mispricing, sector allocation and individual asset allocation.

Characteristics of property portfolios within the PruFund range of funds

Expertise – M&G Real Estate have decades of experience in buying, selling and managing properties, which has helped to shape their investment approach. This focuses in identifying fundamentally well located assets that are underpinned by favourable structural and demographic trends

Global exposure – increased allocations to European and Asian property market in recent years with UK still the core holding

Diversification – commercial property has provided consistent risk adjusted returns to PruFund portfolios over many years. The evolution of different strategies in the UK and overseas, provides further diversification through increased exposure to alternative sectors such as residential property and student housing assets

Scale – enables investment in large, high quality assets and also the ability to invest in development projects like in Edinburgh's Haymarket and 40 Leadenhall in London

Active management – means the portfolios can evolve as markets change, for example reducing exposure to smaller retail assets in the UK has been a theme for several years due to the challenge from online retail

Access to new opportunities – and the ability to offer a range of innovative solutions, is supported by their scale, experience, depth of knowledge and strong industry experience in the markets where they operate

Environmental Social Governance (ESG) – as a responsible investor, M&G Real Estate aim to deliver better outcomes for their investors and society. Promoting environmental excellence; health, wellbeing and occupier experience; and a positive contribution to society are their core pillars of focus

Real assets – property offers an element of inflation protection over the medium-to long term

Please note when clients invest in property funds there may be times when they can't immediately access their money as property can take a long time to sell.

The value of any investment (and any income taken from it) can go down as well as up so your customer might not get back the amount they put in.

The views expressed in this document should not be taken as advice or a recommendation.

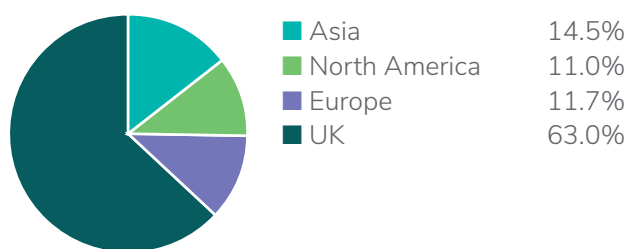
Strategic Asset Allocation (total fund level) for PruFund Growth

Asset	Fund Name	Investment Style	Internally or Externally managed
UK Property	Life Fund Property Portfolio (Mixture of global directly held assets, Core Balanced Collectives and Sector Specialist Collectives)	Active	Internal
Europe Property	Life Fund Property Portfolio (Mixture of global directly held assets, Core Balanced Collectives and Sector Specialist Collectives)	Active	Internal
North America Property	Life Fund Property Portfolio (Mixture of global directly held assets, Core Balanced Collectives and Sector Specialist Collectives)	Active	Internal (and indirectly external)
Asia Property	Life Fund Property Portfolio (Mixture of global directly held assets, Core Balanced Collectives and Sector Specialist Collectives)	Active	Internal

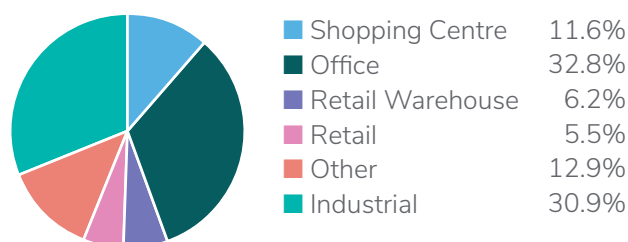
(source T&IO and Pru Actuarial team as at 30.09.2023)

PruFund Growth Summary

Regional Weights



Sector Weights



(Source – M&G Real Estate % of global property portfolio as at 30.09.2023)

Fund Activity (commentary from M&G Real Estate as at 30.09.2023)

In the UK the fund completed the acquisition of a portfolio of prime multi-let industrial estates in London and the South East for a total £78.9m and an additional acquisition to an existing shopping centre for a total of £3.4m.

In Europe, the fund received a further drawdown notice for £16.6m from the M&G European Living Fund. The capital was invested in the fund's second purchase – a residential asset in Dublin.

In terms of rent collection, the fund has achieved collection rates of 96% for Q3 2023. Both industrial and office have reported healthy collection of 97-98%; retail remains lowest at 92.5%.

UK key statistics

KPI	September 2023	June 2023
Asset Value	£7.703bn	£7.834bn
Number of assets	142	142
Average Lot Size	£54.2m	£55.2m
Value of largest holding	8.5% (40 Leadenhall)	8.1% (40 Leadenhall)
Value of largest tenant (% of rent roll)	6.9% (Ashurst)	6.9% (Ashurst)
Number of Developments	3	5
Development Exposure	10.2%	9.8%
Net Initial Yield	4.8%	4.7%
Net Equivalent Yield	6.8%	6.7%
Vacancy % of ERV	10.1%	10.0%
WAULT* (including breaks), years	7.4	7.7

(Source – M&G Real Estate as at 30.09.2023)

* weighted average unexpired lease expiry

Investment transactions

Acquisitions

Date	Asset	Sector	Town	Country	Purchase price, £m	Comment
03 Oct 22	Clarion Lion Industrial Trust	Industrial		US	69.5	1st Drawdown into the Clarion LIT specialist US industrial fund.
03 Jan 23	Clarion Lion Industrial Trust	Industrial		US	64.9	2nd Drawdown into the Clarion LIT specialist US industrial fund.
23 Nov 22	Macquaire Goodman	Industrial		Australia	9.8	Drawdown tranche 2 into the Macquaire Goodman specialist Australia industrial fund.
01 Apr 23	Project King	Industrial		UK	48.4	Purchase of prime London and South East multi-let industry portfolio
03 Apr 23	ELIV	Residential		Europe	3.8	Drawdown into the newly launched M&G European Living Fund.

Date	Asset	Sector	Town	Country	Purchase price, £m	Comment
12 Jul 23	Project King	Industrial		UK	17.5	Purchase of prime London and South East multi-let industry portfolio
28 Jul 23	CENTRAURUS RETAIL PARK	Retail Warehouse		UK	3.4	Purchase of 50% rest of state
04 Aug 23	Project King	Industrial		UK	13.0	Purchase of prime London and South East multi-let industry portfolio
29 Sep 23	ELIV	Residential		Europe	10.7	Drawdown into the newly launched M&G European Living Fund.
				Total Acquisitions	241.0	

Disposals

Date	Asset	Sector	Town	Country	Purchase price, £m	Comment
31 Mar 23	WARRINGTON 389, WARRINGTON	Industrial	WARRINGTON	UK	22.1	Sale of secondary distribution warehouse
26 Jan 23	BYRON HOUSE, LONDON	Office	London	UK	45.4	Sale of multi-let under performing office
09 Feb 23	SITE 2 CRIBBS CAUSEWAY	Retail Warehouse	Bristol	UK	22.1	Sale of small development site
31 Mar 23	CBRE Retail France/Belgium	Shopping centre		Europe	0.3	Final fund liquidation proceeds
06 Apr 23	London Square	Office		UK	38.0	Sale of secondary South East office campus
31 May 23	Project King	Industrial		UK	30.0	Sale of secondary multi-let industrial portfolio
22 Jun 23	59/61 Church Streey	Standard Retail	Liverpool	UK	1.4	Sale of non-core high street retail asset
26 Jun 23	LF INTEREST IN ST EDWARD HOMES	Residential		UK	74.9	Distribution from build to sell strategy
01 Aug 23	LF Investment in PRELP	Other		UK	45.0	Redemption from investment in PRELP*
				Total Disposals	279.2	

*Prudential Real Estate Limited Partnership

Strategic Asset Allocation (total fund level) for PruFund Cautious

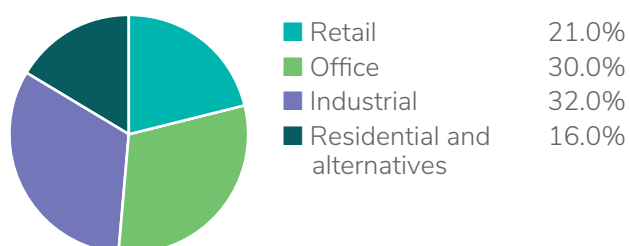
The following data is in relation to the Prudential Real Estate Limited Partnership (PRELP) which is how PruFund Cautious gains exposure to the UK Property market. PruFund Cautious gains its European property exposure via the M&G European Property Fund (MEP), Asian property exposure via the M&G Asian Property Fund (MAP) and has some direct property exposure to the North American property market. The below provides insight into the PRELP collective investment vehicle.

Asset	Fund Name	Investment Style	Internally or Externally managed
UK Property	Prudential Real Estate Limited Partnership (PRELP)	Active	Internal
Europe Property	M&G European Property Fund (Core-Balanced Collective)	Active	Internal
North America Property	Morgan Stanley Prime (Core-Balanced Collective) Directly held assets	Active	External Internal
Asia Property	M&G Asia Property Fund (Core-Balanced Collective) Sector Specialist Collectives within Prudential Australian Property Trust	Active	Internal

(Source T&IO and Pru Actuarial team as at 30.09.2023)

PruFund Cautious UK Property

Sector weights (PRELP)



Fund Activity (commentary from M&G Real Estate as at 30.09.2023)

Total return for Q3 2023 was negative this was largely driven by under performance of office assets, but we expect these assets to lead to improved returns and portfolio quality on completion during 2024.

In terms of rent collection figures for 2023 Q2 stands at 99% and Q3 2023 has also attained 99%, 6 weeks after the quarter day. Work continues to secure payments of outstanding rental and service charge liabilities notably in the retail sector.

UK Key Statistics

	September 2023	June 2023
Net Asset Value	£977.1m	£990.1m
Number of assets	43	43
Average lot size	£22.0m	£22.1m
Value of largest holding	9.5% (Tottenham Ct Rd)	8.7% (Tottenham Ct Rd)
Value of largest tenant (% of rent roll)	6.8% (Sainsburys)	7.0% (Sainsburys)
Number of developments	2	2
Development exposure	13.3%	12.0%
Net Initial Yield	4.1%	4.0%
Net Equivalent Yield	5.8%	5.7%
Vacancy of ERV	8.0%	8.8%
WAULT* (inc. breaks), years	11.3 %	12.0%

(Source – M&G Real Estate as at 30.09.2023)

* weighted average unexpired lease expiry

Investment transactions, last 12 months

Disposals

Date	Asset	Sector	Town	Purchase price, £m	Comment
09 Mar 23	Dial House, 2 Burston Road	Office	London	11.00	Disposal of vacant office asset given excess levels of development exposure
05 May 23	Pets at Home	Industrial	Stoke on Trent	7.00	Mitigating void and development exposure
Total Disposals				18.00	

Want to know a bit more about the M&G Real Estate team?

M&G Real Estate is recognised as one of the world's leading property investors. They invest across all sectors with a portfolio that spans 29 countries. They are the specialist property manager for M&G and are responsible for managing the property investments within PruFunds.

Globally, M&G Real Estate manage more than £37.4 billion assets* on behalf of clients, providing a range of funds and bespoke solutions for PruFunds, including segregated mandates and pooled investment funds.

* as of 30.09.2023, source M&G Real Estate.

Environmental, Social and Governance

M&G Real Estate are a responsible investor, whose goal is to deliver better outcomes for their investors and society. By driving environmental improvements and increasing the operational efficiency of their buildings, M&G Real Estate are committed to achieving net zero carbon emissions across their global real estate portfolio by 2050. Over 40% of their global asset portfolio (by value) has a green building certification, and they continue to drive asset certification to provide independent verification of their assets sustainability credentials.

In regards to PruFunds, M&G Real Estate are aware that caution should be applied towards those assets which fail to meet or keep up with Minimum Energy Efficiency Standards (MEES), which could become 'stranded' – unlettable and unviable for investors. It is clear that ESG remains at the forefront of investors' thinking and the ability to reshape and future-proof portfolios in line with these themes will be an important driver of performance going forward.

A good example of ESG at play within our property portfolio is the development of an office campus for Surbana Jurong, one of Asia's largest urban and infrastructure consulting firms. The campus was designed as a 'holistic green building' ensuring it is environmentally less impactful, highly energy, water and resource efficient and enhances the wellness and productivity of occupants. The project is one of the first to achieve a Platinum (Super Low Energy) rating under Singapore's BCA Green Mark Programme for environmentally sustainable buildings and was funded through the M&G Asian Property Fund that is held within PruFunds.

Summary

Despite recent turbulence in the financial markets, the property outlook is one of cautious optimism as central banks have stabilised the situation and the contagion risk looks managed. **Investors caution led to declines in transaction activity** across the world, particularly in Europe & the Americas.

We continue to see yields adjust as investors go through a period of price discovery, placing downwards pressure on valuations. That said the **UK remains much further ahead** in its price correction and has started to show signs of a moderation in the pace of capital decline as a result.

Asia Pacific continues to see the least impact from the recent occupier and investor caution and will likely maintain its relative outperformance, underpinned by relatively lower inflation and a stronger economic outlook.

There are increasing signs that **occupiers are becoming more cautious** about taking space, particularly in the office sector, although well-located core stock with strong ESG credentials **continues to attract demand** and should prove more resilient in the face of economic headwinds.

Challenges prevail for property at the moment but it is important to remember that much of **the portfolio is of a very high quality, diversified and long-term investments** that we feel will generate good returns over a multi-year period.

As active managers M&G Real Estate continue to invest in, and **complete new projects**. A recent example being **the development of 40 Leadenhall in London's financial district**. This project taps into modern occupier demands and is set to be the largest office development in the City of London in 2024. Designed to be green in use, not just in design, it will be among the UK's first buildings to achieve the NABERS certification – an energy efficient standard that measures how a building's designed to operate as well as how it performs in use.

The scheme is now 70% pre-let before it's completion this year and indicates that tenant demand for quality (Grade A) office space continues to be buoyant.

The information in this document has been provided by M&G Real Estate Limited, a part of the M&G plc group.

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There is no guarantee that these investment strategies will work under all market conditions or are suitable for all investors and you should ensure you understand the risk profile of the products or services you plan to purchase.

M&G plc does not offer investment advice or make recommendations regarding investments. Opinions are subject to change without notice.

The value of investments and any income from them may go down as well as up and are not guaranteed. Investors may get back less than the original amount invested and past performance information is not a guide to future performance.

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