

# An Insight into Property

(Information is as at 30 March 2022, updated in August 2022, next update will be as at 30 September 2022, updated in February 2023)

## 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 standard rather than Planet versions of PruFund.

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 150 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.

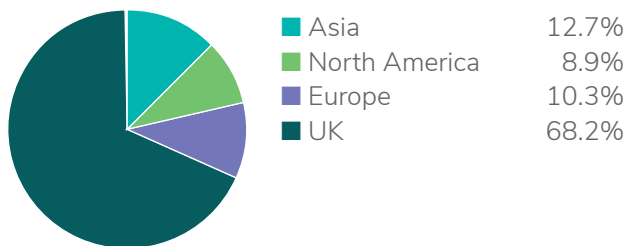
# Strategic Asset Allocation (total fund level) for PruFund Growth

Asset	Strategic Asset Allocation		Fund Name	Investment Style	Internally or Externally managed
UK Property	10.4%	1 x segregated mandate	M&G UK Direct Property	Active	Internal
Europe Property	2.0%	1 x pooled fund	M&G European Property Fund	Active	Internal
North America Property	1.9%	1 x segregated mandate	M&G US Direct Property	Active	Internal
Asia Property	2.4%	1 x pooled fund	M&G Asia Property Fund	Active	Internal

(source T&IO and Pru Actuarial team as at 30.06.2022)

## PruFund Growth Summary

### Regional Weights



### Sector Weights



(Source – M&G Real Estate % of global property portfolio as at 31.03.2022)

## Fund Activity (commentary from M&G Real Estate as at 31.03.2022)

In the UK the fund completed the purchase of a portfolio of 9 multi-let industrial estates for £165m. The portfolio will be included in the existing Project King industrial portfolio resulting in a circa £500m discreet strategy in this sector.

In terms of rent collection, the fund has achieved collection rates of 92% for Q1 2022 with the highest collection rates achieved in the office and industrial sectors at 95% and 94% respectively.

From an occupational perspective, a significant new letting completed at the fund's Avon House mixed use asset on Oxford Street where Superdry have signed a 10 year lease. This letting removes a significant void in the retail portfolio and improves the letting prospects of the adjoining vacant retail unit.

In the industrial sector a simultaneous surrender and new letting has been completed at Buckingham Business Park, Cambridge. Sense Biodetection have taken a new 10 year lease at £11.50 psf which represents a £2.25 psf increase in the rental tone across the estate. This initiative resulted in a valuation uplift of circa £6.5m.

## UK key statistics

KPI	Current Quarter March 2022	Previous Quarter December 2021
Asset Value	£9.389bn	£9.039bn
Number of assets	149	155
Average Lot Size	£63.0m	£58.3m
Value of largest holding	5.5% (40 Leadenhall)	5.2% (40 Leadenhall)
Value of largest tenant (% of rent roll)	6.5% (Ashurst)	6.0% (Ashurst)
Number of Developments	5	5
Development Exposure	9.7%	9.2%
Net Initial Yield	3.8%	4.1%
Net Equivalent Yield	5.0%	5.1%
Vacancy % of ERV	8.1%	8.4%
WAULT (including breaks), years	7.8	7.7

(Source – M&G Real Estate as at 31.03.2022)

## Investment transactions, last 12 months

### Acquisitions

Date	Asset	Sector	Town	Purchase price, £m	Comment
30 Apr 21	85 & 91 – 95 Chester Street	Industrial	Birmingham	5.2	Acquisition of multi-let industrial estate
01 Apr 21	Units in Shared Ownership Fund	Residential		25.9	Initial drawdown into shared ownership fund as part of total £88.5m subscription.
01 Jul 21	Units in Prudential Real Estate Limited Partnership (PRELP) Fund	Residential		329.4	SAIF merger with OBMG results in PRELP holding.
03 Dec 21	Old Technology Campus	Residential	Leeds	16.1	Acquisition of a student housing development on a forward funding basis.
06 Jan 22	130 Whitechapel High Street	Office	London	6.0	Acquisition of small office building in Whitechapel – development potential
22 Feb 22	St Andrews Trading Estate	Industrial	Bristol	17.5	Acquisition of regional industrial estate as part of the Project King portfolio

22 Feb 22	Hanover Road Industrial Estate	Industrial	Altrincham	16.0	Acquisition of regional industrial estate as part of the Project King portfolio
21 Feb 22	Peter Road Industrial Estate	Industrial	Lancing	10.8	Acquisition of regional industrial estate as part of the Project King portfolio
21 Feb 22	Haydock Industrial Estate	Industrial	Haydock	30.0	Acquisition of regional industrial estate as part of the Project King portfolio
21 Feb 22	Baillieston Distribution Centre	Industrial	Glasgow	14.7	Acquisition of regional industrial estate as part of the Project King portfolio
21 Feb 22	Lymedale Cross Industrial Estate	Industrial	Newcastle-under-Lyme	24.1	Acquisition of regional industrial estate as part of the Project King portfolio
21 Feb 22	Liver Industrial Estate	Industrial	Aintree	8.4	Acquisition of regional industrial estate as part of the Project King portfolio
21 Feb 22	Kelvin Way Trading Estate	Industrial	West Bromwich	32.0	Acquisition of regional industrial estate as part of the Project King portfolio
21 Feb 22	Morton Park	Industrial	Darlington	10.9	Acquisition of regional industrial estate as part of the Project King portfolio
				<b>Total Acquisitions</b>	<b>546.9</b>

## Disposals

Date	Asset	Sector	Town	Sale price, £m	Comment
13 Apr 21	King Edward VI House	Standard Retail	Birmingham	21.0	Sale of high street retail with vacant upper parts
28 Apr 21	Dominion House	Office	Guildford	2.4	Sale forms part of the development site into the St Edwards Homes JV
28 Apr 21	Development Site	Standard Retail	Guildford	5.6	Sale of development site into the St Edwards Homes JV
03 Jun 21	54/60 Montague Street	Standard Retail	Worthing	4.5	Sale of non-core high street retail asset
24 Jun 21	196-199 High Street	Standard Retail	Lincoln	5.9	Sale of non-core high street retail asset
25 Jun 21	72/76 Queen Street	Standard Retail	Cardiff	23.3	Sale of non-core department store

30 Jun 21	46 Clarendon Road	Office	Watford	13.9	Sale of non-core South East office
14 Jul 21	11 Coney Street	Standard Retail	York	0.5	Sale of non-core high street retail asset
05 Aug 21	5x Industrial Estates	Industrial	UK	13.6	Sale of secondary industrial portfolio
06 Aug 21	15/29 Abingdon St	Standard Retail	Northampton	6.1	Sale of non-core high street retail asset
18 Aug 21	46 High Street	Standard Retail	Exeter	0.4	Sale of non-core high street retail asset
03 Sep 21	High March Ind Estate	Industrial	Daventry	0.7	Sale of secondary industrial unit
20 Sep 21	Cardinal West	Industrial	Huntingdon	27.9	Sale of secondary logistics warehouse
30 Sep 21	Garthdee Retail Park	Retail Warehouse	Aberdeen	32.2	Sale of secondary non-core retail warehouse park
15 Oct 21	1-7 Stoke Road	Office	Guildford	10.9	Sale of non-core South East office
01 Nov 21	127 Above Bar Street	Other	Southampton	2.0	Sale of non-core high street retail asset
17 Dec 21	283 Oxford Street	Standard Retail	London	43.3	Sale of non-core high street retail asset
20 Dec 21	The Strip Snowhill Queensway	Other	Birmingham	7.7	Sale of vacant development site
21 Dec 21	Debenhams Store	Standard Retail	Guildford	19.9	Sale of vacant department store
07 Jan 22	Homebase	Retail Warehouse	Bracknell	13.0	Sale of Retail Warehouse
10 Jan 22	50-52 High Street	Standard Retail	Exeter	2.2	Sale of non-core high street retail asset
10 Jan 22	48-49 High Street	Standard Retail	Exeter	1.5	Sale of non-core high street retail asset
10 Jan 22	19/21 Cathedral Yard	Standard Retail	Exeter	2.7	Sale of non-core high street retail asset
11 Jan 22	70/72 Kilburn High Road	Standard Retail	Kilburn	1.7	Sale of non-core high street retail asset
12 Jan 22	Cwmbran Shopping Centre	Shopping Centre	Cwmbran	60.4	Sale of Shopping Centre
12 Jan 22	Galleries Shopping Centre	Shopping Centre	Washington	78.1	Sale of Shopping Centre
08 Feb 22	99/101 Lord Street	Standard Retail	Liverpool	6.8	Sale of non-core high street retail asset
				<b>Total Disposals</b>	<b>408.1</b>

# Strategic Asset Allocation (total fund level) for PruFund Cautious

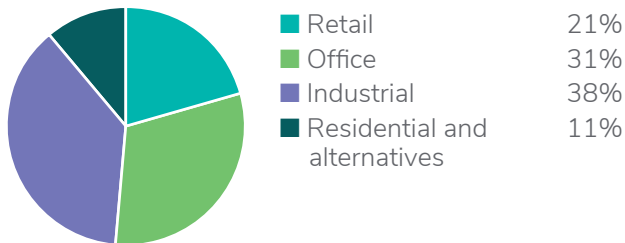
The following data is in relation to the Prudential Real Estate Limited Partnership (PRELP) which is how PruFund Cautious gains exposure to the UK Property market. PruFund Cautious gains its European property exposure via the M&G European Property Fund (MEP), Asian property exposure via the M&G Asian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

Asset	Strategic Asset Allocation		Fund Name	Investment Style	Internally or Externally managed
UK Property	6.6%	1 x pooled fund	Prudential Real Estate Limited Partnership (PRELP)	Active	Internal
Europe Property	1.3%	1 x pooled fund	M&G European Property Fund	Active	Internal
North America Property	1.3%	1 x segregated mandate	M&G US Direct Property	Active	Internal
Asia Property	1.4%	1 x pooled fund	M&G Asia Property Fund	Active	Internal

(source T&O and Pru Actuarial team as at 30.06.2022)

## PruFund Cautious summary

### Sector weights (PRELP)



## Fund Activity (commentary from M&G Real Estate as at 31.03.2022)

In terms of rent collection the fund has achieved collection rates of 97%-100%, for Q1-Q4 2021. Collection figures for 2022 Q1 and Q2 stand at 98 and 95% respectively. Work continues to secure payments of outstanding rental and service charge liabilities notably in the retail sector.

## UK Key Statistics

	Current quarter March 2022	Previous quarter December 2021
Net Asset Value	£1,096.5m	£1,111.7m
Number of assets	45	45
Average lot size	£22.2m	£23.2m
Value of largest holding	7.5% (The Arena)	7.6% (The Arena)
Value of largest tenant (% of rent roll)	6.9% (Sainsburys)	7.4% (Sainsburys)
Number of developments	2	2
Development exposure	9.30%	8.90%
Net Initial Yield	3.40%	3.90%
Net Equivalent Yield	4.70%	4.90%
Vacancy of ERV	9.10%	7.90%
WAULT (inc. breaks), years	12.3	11.9

(Source – M&G Real Estate as at 31.03.2022)

## Investment transactions, last 12 months

### Acquisitions

Date	Asset	Sector	Town	Purchase price, £m	Comment
01 Apr 21	Units in shared ownership Fund	Residential	UK	3.4	Increasing exposure to alternative. Additional £8.1m in commitment queue to be drawn in H1' H22
<b>Total Acquisitions</b>				<b>3.4</b>	

### Disposals

Date	Asset	Sector	Town	Purchase price, £m	Comment
08 Apr 21	Lucidus	Office	Watford	17.8	Reducing office weighting and exposure to leasing risk in near team.
30 Apr 21	Elder House	Office	Weybridge	3.8	Mitigating vacancy risk on business park
9 Aug 21	15-19 St George Street	Standard Retail	Canterbury	2.3	Reduction in retail weighting and removing very small asset.
<b>Total Disposals</b>				<b>23.2</b>	

## 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 £38.3 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 30.06.2022, 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 30% 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

The UK property market continued to perform well in Q1, with the MSCI monthly index delivering a total return of 5.6% in the three months to 31 March 2022, underpinned by positive sentiment towards assets with exposure to e-commerce and inflation protection.

Geopolitical events are placing downward pressure on the global economic recovery and heightened concern about inflation is introducing uncertainty around previously expected returns for real estate in 2022 and 2023. Indeed, inflation has risen to the top of investor agendas, with a renewed focus on sectors and assets that can help hedge against rising prices. As a result, M&G Real Estate expect living sectors with leases specifically linked to inflation, as well as those where inflationary rises can easily be passed onto tenants, to continue to perform particularly well.

Property is a complex asset class where the active management of both regional allocations and asset selection and ongoing management can make a real difference to returns and will become increasingly important as the focus on the environmental credentials of each property increases.

We often talk about how the scale of PruFund portfolios is a benefit and never more so than with an asset such as property. M&G Real Estate team continuously look to assess new investments across the globe and have the scale which enables investment in a huge variety of different assets. This is achieved within the main UK property mandate and via large institutional funds such as M&G European and M&G Asian Property funds and the M&G Residential Property Fund, for example.

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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