

Quarterly Update

Q1 20

Fund Facts

Portfolio Manager
Alex Short



Investment Objective and Strategy

The Company exploits what it believes to be the compelling relative value opportunities offered by pricing inefficiencies in smaller commercial properties let on shorter occupational leases in strong commercial locations. The Company supplements this core strategy with active asset management initiatives to improve the quality of income streams and maximise value.

Launch date: 12 May 2015

Fund structure: UK Real Estate Investment Trust

SRI policy: [Click here](#)

Year end: 31 March

Fund size (Net Asset Value): £147.86m

The Net Asset Value ("NAV") as at 31 March 2020 is subject to material uncertainty following the Standing Independent Valuer's determination of material valuation uncertainty as per VPS 3 and VPGA 10 of the RICS Red Book Global, due to the unprecedented set of circumstances surrounding the COVID 19 Global Pandemic. Consequently, less certainty and a higher degree of caution should be attached to the NAV.

Property valuation: £189.30m

Number of properties held: 35

Average lot size: £5.41m

Property portfolio net initial yield (% p.a.): 8.26%

Property portfolio reversionary yield: 7.90%

LTV (Gross Asset Value): 27.21%

Average weighted unexpired lease term

To break: 4.3 years **To expiry:** 5.6 years

Occupancy: 96.32%* * As a % of ERV

Number of tenants: 91

Share price as at 31 Mar: 68.2p

NAV per share: 93.13p **Premium/(discount) to NAV:** (26.77%)

Shares in issue: 158.77m

Market capitalisation: £108.28m

Annual management charge: 0.9% per annum of invested NAV

Dividend target

The Directors will declare dividends taking into account the level of the Company's net income and the Directors' view on the outlook for sustainable recurring earnings. As such, the level of dividends paid may increase or decrease from the current annual dividend of 8.00 pence per share. It remains the Company's intention to continue to pay future dividends in line with its dividend policy, however the outlook remains unclear given the current COVID-19 situation.

ISIN: GB00BWD24154 **Broker:** Liberum

Ticker: AEWU **SEDOL:** BWD2415

AEW UK REIT plc invests in and intensively asset manages a diversified portfolio of small, high yielding commercial properties across the UK.

Fund Highlights

- The Company announced an interim dividend of 2.00 pence per share for the three months ended 31 March 2020, in line with the targeted annual dividend of 8.00 pence per share. This dividend is more than covered by EPRA earnings per share ("EPRA EPS") for the quarter of 2.12 pence per share.
- NAV of £147.86 million or 93.13 pence per share as at 31 March 2020.
- As at 17 April, 64% of rent had so far been collected for the quarter. This figure is expected to increase to 75% once payments have been received from tenants making monthly payments. Pending the agreement of potential asset management transactions, this could then increase to 85% once negotiations have completed.
- The Company remains conservatively geared with a gross loan to value ratio of 27.21% (31 December 2019: 26.30%). Having raised gross capital proceeds of £7m during the quarter, the Company had a cash balance of £9.87 million and net loan to value ratio of 21.99% as at 31 March 2020. The Company expects to pass all banking covenant tests for this quarter with significant headroom when they are measured at the end of April.
- Strongly performing underlying property portfolio producing the highest level of income return and the second highest total return when compared with the MSCI UK Balanced Funds Quarterly Property Index for the 12 month period to 31 December 2019 (latest index data available). The portfolio has also outperformed the index producing 3.1% total return outperformance on an annualised basis over the past 3 years.

Portfolio Manager's Comment

We are currently seeing an unprecedented period of uncertainty within UK and global markets and understandably, this is having an impact on real estate markets. This is demonstrated within our property valuation this quarter and also by the fact that the property valuation, in line with guidance given by the RICS to the UK real estate market as a whole, is issued with material uncertainty.

Features inherent in the Company give us comfort however, that it is as well-positioned as possible in the current time. Firstly, the high and very stable level of earnings generated from the portfolio represent a strong starting point in times of increased volatility. Looking at UK real estate return components since the inception of the MSCI index, income is by far the least volatile providing a much more resilient profile even in times of large capital declines. The Company's ability to generate both high and stable earnings is demonstrated by its dividend of 2p per share per quarter which has been reliably paid each quarter for four years now and was most recently covered to 106%.

Furthermore, the Company's strong focus towards industrial property at over 48% is expected to provide a robust base, both during the crisis and also for recovery once normal life resumes. We can already see that the restrictions that have been placed on all of our lives have led to a significant drop off in trade for retail and leisure operators. In the industrial sector however, we see supermarkets and online retailers looking to take on additional space in order to deal with increased capacity and UK manufacturers rising to new production challenges with an entrepreneurial spirit.

Another area which provides us with some optimism is in connection with ongoing asset management transactions. As Manager of the Company, AEW's very active

approach to asset management is a major feature of its investment strategy and proven by the portfolio's outperformance of the MSCI UK Balanced Index at property level over various time periods. Since restrictions have been sanctioned in the UK, we have seen some of the portfolio's potentially most accretive value plays continue to progress and, in addition, some new opportunities have come to light during this time. We continue to work assets hard in order to maximise value. This can be demonstrated by the portfolio's very low vacancy level, which has now remained below 4% for seven consecutive quarters.

Turning to the valuation, movement per sector can be seen below with the impact in retail sectors being felt most acutely. Strong valuation uplift for the quarter came from the Company's asset in Corby, shown within 'other', due to improved occupational market conditions. The like-for-like valuation decrease for the quarter of £6.50 million (3.32%) is detailed as follows by sector:

Sector	Valuation 31 March 2020		Valuation movement for the quarter	Valuation movement for the quarter
	£ million	%	£ million	%
Industrial	91.20	48.2	-3.68	-3.87
Office	44.90	23.7	-0.35	-0.77
Other	29.80	15.7	0.13	0.42
Retail	23.40	12.4	-2.60	-10.00
Total	189.30	100.0	-6.50	-3.32

10 largest assets	Location	Sector
Geddington Road, Corby	East Midlands	Other
40 Queens Square, Bristol	South West	Offices
Eastpoint Business Park, Oxford	South East	Offices
London East Leisure Park, Dagenham	Rest of London	Other
Gresford Industrial Estate, Wrexham	Wales	Industrial
225 Bath Street, Glasgow	Scotland	Offices
Lockwood Court, Leeds	Yorkshire and Humberside	Industrial
Sandford House, Solihull	West Midlands	Offices
Unit 16 and Unit 16a Lanthwaite Grange Industrial Estate, South Kirkby	Yorkshire and Humberside	Industrial
Wyndeham, Peterborough	Eastern	Industrial

As at 31 March 2020.

Sector Weightings		
	Industrial	48.2%
	Offices	23.7%
	Other	15.7%
	Standard Retail	9.5%
	Retail Warehouse	2.9%

Based upon Knight Frank valuation. As a percentage of portfolio (excluding cash).

Portfolio Locations		
	Yorkshire and Humberside	17.7%
	South East	14.2%
	Eastern	11.4%
	South West	11.3%
	West Midlands	10.1%
	East Midlands	10.1%
	North West	7.5%
	Wales	7.4%
	Rest of London	5.6%
	Scotland	4.7%
	Central London, North East, Northern Ireland	0.0%

Based upon Knight Frank valuation. As a percentage of portfolio (excluding cash).

COVID-19

Since the onset of the COVID-19 situation, the Investment Manager and Directors have been working unrelentingly to minimise the impact and ensure that the Company is well positioned. The Company is pleased to report that all individuals are well and furthermore, business continuity measures which the Company has implemented are operating effectively. Whilst the full impacts of COVID-19 are yet to become clear, the Company exhibits a number of features which make it as robustly positioned as possible to deal with the ongoing situation:

- **Low leverage** - The Company remains conservatively geared with a gross loan to value ratio of 27.21%. The Company expects to pass all covenant tests for this quarter with significant headroom at the end of April.
- **Well capitalised** - Following the Company's recent Placing, it has a strong cash position of £9.87 million.
- **Low vacancy level** - Vacancy level remains very low at 3.68%.
- **Strong industrial weighting** - The portfolio benefits from a high industrial weighting of 48.2% and a low weighting towards those market sectors more immediately affected by the current situation namely, retail (12.4%) and leisure (7.8%).
- **Diversified portfolio** - the Company's portfolio comprises 35 properties let to 91 tenants in strong, regional locations where there are few alternatives for tenants to relocate. A total of 76% of the Company's tenant base are classed as either government bodies, essential services, large international companies or benefit from online trading.
- **Active management of assets** - The Investment Manager's active approach led to 12 lettings being completed during the year to 31 December 2019, with annual headline income achieved 9% ahead of estimated rental value from independent valuers. The Investment Manager continues to pursue its active management strategies notwithstanding the current uncertain situation.
- **Strongly performing underlying property portfolio** - The portfolio produced the highest level of income return and the second highest total return compared with the MSCI UK Balanced Funds Quarterly Property Index for the 12 month period to 31 December 2019.

The management team



Richard Tanner
Managing
Director – AEW UK



Alex Short
Portfolio
Manager



Laura Elkin
Portfolio
Manager

Key contact Investor Relations: Kari Clarke | kari.clarke@eu.aew.com | T: 020 7016 4804

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