# M&G Property Portfolio and M&G Feeder of Property Portfolio

## Temporary suspension of dealing

Co-Fund managers – Fiona Rowley and Justin Upton

FOR INVESTMENT PROFESSIONALS ONLY

December 2019

- *Temporary suspension of dealing in the M&G Property Portfolio and the M&G Feeder of the Property Portfolio takes effect from midday on **4 December 2019***
- *Fund's annual charge charged will be reduced by 30%, which will end when the funds resume dealing*

## Fund suspension rationale

In recent months, continued political uncertainty and ongoing structural shifts in the UK retail sector have prompted unusually high outflows from our retail property fund. Given that these circumstances and deteriorating market conditions have significantly impacted our ability to sell commercial property, we have temporarily suspended dealing in the M&G Property Portfolio and its feeder fund as of midday on 4 December 2019 in the interests of protecting customers who are invested in these funds.

The decision was taken by the Authorised Corporate Director (ACD) in agreement with the Depositary. The Financial Conduct Authority (FCA) has been notified.

The suspension will allow us to raise cash levels and preserve value for our investors by selling assets in a controlled manner.

The funds will still be actively managed whilst in suspension, but in recognition of customers' temporary inability to access their investment, M&G is waiving 30% of its annual charge, which will end when the funds resume dealing. Suspension will be formally reviewed on a monthly basis and we will inform investors if the level of discount changes.

## Market conditions and asset sales

Despite considerable investment into UK commercial property this year by domestic and foreign investors, Brexit is delaying investment activity, demonstrated by slower transactions and the reticence of investment committees to approve deals.

This year to 31 October 2019, we have sold 14 properties for £374.8 million, including some retail holdings in weaker locations with vacancies and/or short leases. Since 2016, our aim has been to actively position the portfolio towards better quality assets in sectors which are forecast to outperform over the next five years.

## Property outlook

We expect rental income to be the main contributor of returns for investors in the sector, with asset prices in the retail sector – about a third of the overall commercial property sector – dampening performance, as has been the case for some time.

Unsurprisingly, the value of certain retail properties has declined as retailers continue to adjust their business models in response to changing shopping habits and rising costs.

Not all retail assets are facing the same challenges, however. Prime retail is outperforming secondary assets, dominant regional retail parks continue to draw customers from town centres, and capital values for supermarkets have been resilient.

While rents are coming under pressure, prime properties are seeing smaller declines in rents than other assets.

The fund's Retail vacancy (3.6%) is below the benchmark (5.1%), highlighting the importance of a diversified portfolio across sectors, to deliver an attractive yield and total return over the long term.

## Temporary suspension period

Our immediate focus is an orderly sales programme, to increase the cash position to pay redemptions once we reopen the funds – without compromising returns. Resumption of dealing will be in line with the FCA's Collective Investment Scheme rules.

The fund will be constantly monitored, formally reviewed on a monthly basis and will continue to pay income distributions.

We are unable to say how long the suspension will last, but we will update you via the M&G website and in writing when we are able to reopen the funds.

M&G is in regular dialogue with the FCA, and we continue to work with them to protect the interests of our customers.

**We thank you for your patience and understanding in this matter and for your continued investment with M&G.**

**Fiona Rowley and Justin Upton. M&G, December 2019**

**We would like to remind investors that there are specific risks associated with investing in this fund.** These include:

- The fund invests mainly in property. This type of fund can carry a higher risk and experience bigger price gains and falls than a fund which invests in different types of assets.
- Commercial property can be more difficult and take longer to buy and sell than bonds and company shares. In extreme market conditions, or if significant numbers of investors withdraw their investments from the fund at the same time, the manager may be forced to dispose of property investments. This may result in less-than-favourable prices being obtained in the market for those investments. Suspension of redemptions has become necessary to balance the interests of continuing shareholders with those seeking to redeem.
- Property valuations are provided by an independent valuer and are subject to the judgement of the valuer. Furthermore, commercial property values are affected by interest rates, rental growth, changes in property yields and tenant default. If the property is vacant or if a tenant defaults, there will be a rental shortfall and additional costs are likely to be incurred. These include legal expenses, insurance and maintenance of the property and business rates.
- Commercial property transaction charges are higher than those which apply in other types of asset. A high volume of transactions would have a material impact on fund performance.
- The value and income from the fund's assets will go down as well as up. This will cause the value of your investment to fall as well as rise. There is no guaranteed that the fund will achieve its objective and you may get back less than you originally invested.