Client update

BMO Property Growth & Income Fund

Q&A with the Fund Managers

Why was the Fund suspended?

The Fund suspended dealing on the 18 March 2020 in accordance with FCA rules under the existing COLL sourcebook and the policy statement 19/24 on illiquid assets in open-ended funds which was released last year. Under these rules the FCA requires that a fund that invests in immovable assets suspends trading of shares if its standing independent valuer (SIV) applies a material uncertainty qualification to valuations to more than 20% of the Fund's total assets. The suspension was not triggered by any a liquidity event.

Why has the Fund's suspension been lifted?

Following an announcement on 10 June 2020 that the Fund's standing independent valuer (SIV), Knight Frank LLP, has removed the material uncertainty from valuations covering the industrial and logistics sectors in the UK with immediate effect. Following this announcement only circa 7% of the Fund's assets are subject to material uncertainty and therefore the suspension of dealing in the Fund's shares can be lifted effective 12:01pm on 15 June 2020.

When will I be able to trade?

Although the lifting of the suspension takes effect at 12:01pm on 15 June 2020, investors in the Master Fund will only be able to place their trades for the valuation point at 12:00 noon on 16 June 2020 between 4am and 11:59am on 16 June 2020. Trades placed before 4am on 16 June 2020 will be rejected.

Investors in the Feeder Fund will be able to place their trades for the valuation point at 5:00pm on the 16 June 2020 (which is based on the Master Fund valuation at 12.00 noon on the same day) between 12:01pm on 15 June 2020 and 7:59am on 16 June 2020. Trades placed before 12:01pm on 15 June 2020 will be rejected.

It is important to note that if any investors have placed trades at any time during the suspension period in the Funds, these will NOT be carried forward and investors still wishing to trade will need to resubmit their trade instructions.

Why are there differences in the timings for lifting the suspension for the Master Fund and Feeder Fund? Does this offer any advantage to either client base?

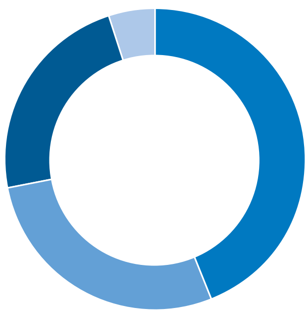
For operational reasons, the timings to lift suspension are slightly different.

This means any Feeder Fund investor has more time to place a deal for the 16 June 2020 valuation point (i.e., between 12:01pm on 15 June 2020 through to 7:59am on 16 June 2020) than a Master Fund investor (i.e. between 4 am and 11:59am on 16 June 2020). However, as both the Feeder Fund and Master Fund prices will be using the same valuation of the underlying assets, we do not believe any material advantage is offered to investors in the Feeder Fund.

When will material uncertainty be removed from the remainder of the Fund's physical property portfolio?

As the easing of the lockdown continues, we expect the valuers to continue to release further property sectors from material uncertainty and this will include offices. The timing of this will depend on the government guidelines and how these develop over the coming days and weeks.

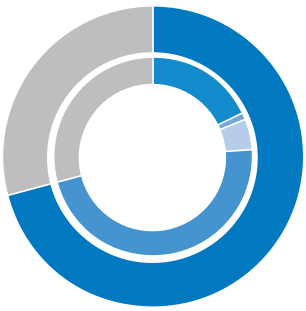
What is the Fund's current positioning?



Continental Europe Shares	44%
Uk Direct Property	28%
UKShares	23%
Cash	5%

Source: BMO Global Asset Management. Data as at 10.06.2020

What is the physical property positioning?



Source: BMO Global Asset Management. Data as at 30.05.2020

What is the underlying liquidity of the Fund?

The portfolio management team monitors the Fund's liquidity on a 'live' basis55% of the equity portfolio can be liquidated in two working days, and 95% in 18 working days assuming 30% of daily volume on a rolling 20-day average. The physical property portfolio is made up of smaller lot sizes (sub £10m) with the average lot size of £4.4m. These assets tend to be more liquid as there are a greater number of buyers and sellers than for the larger (£10m+) lot sizes which are more institutional in nature.

What will the distribution yield be?

Whilst some companies have suspended or cancelled dividends, we are deliberately exposed to companies that have secure income streams. However, the situation for all businesses is evolving and many companies are erring on the side of caution regarding their distributions. Our current expectation is that distributions for the current year will run at around 75% of that in the prior year.

This approach is cautious, given that a number of companies have indicated that they will recommence dividends as soon as they have more clarity. In addition, we continue to see active interest and leasing activity in our industrial property.

What has been the effect of COVID-19 on the commercial property market?

Prior to the pandemic the UK commercial property market was already experiencing a wide dispersion of returns between sectors. The struggles of the retail market have been widely documented almost as much as the success of the industrial/logistics market.

The pandemic has resulted in a deep hit in demand, impacting the weakest markets the most and the strongest markets the least. Consumer-facing sectors such as hotels, retail and leisure, pubs and restaurants have been affected the most. Conversely most industrial units have either not closed at all or have reopened for business quickly where social distancing allows.

The retail market is now slowly starting to reopen from the beginning of June, with the leisure market tentatively looking to reopen at the beginning of July. Social distancing will continue to disproportionally hit occupiers who rely on customers visiting units to generate turnover. The office market sits somewhere between the two – occupiers have been negatively affected, although the ability for employees to work from home (WFH) has limited the immediate impact. The long-term effects of COVID and WFH will obviously pan out over a period of years with many push- and pull-factors in play. For example, we expect the reversal of desk density in the office market.

What has happened to performance during suspension?

During suspension the Fund has returned 18.9% (A Class Accumulation)[1].

Equities

Pan European real estate equities fell -41.7% (in EUR terms) between 19 February 202, the market peak, and 18 March 2020, the market trough, and coincidentally when the Fund suspended. Since then they have recovered 31.6% with recent performance best described as volatile. The sector stands -23% below the market peak.

There has been wide variation of returns at the sub-sector level with the best performers displaying similar characteristics of strong dividends covered by earnings. For example, German residential fell the least (-36%) and then bounced the most +57% and is now at pre-pandemic levels. Industrial/logistics are now collectively only 5% below the market peak in February and healthcare only -6.5%. Supermarkets are also above pre-pandemic levels. The Fund is overweight in its exposure to these sub-sectors and has enjoyed good performance as a result.

The Fund has a core income objective and has therefore avoided low income generating securities (which have performed worse than higher income generating securities). The Fund has zero exposure to non-food retail securities and less than 5% in securities issued by owners of European shopping centres.

Physical

Despite COVID-19 this has been a busy period of asset management for the Fund's physical property portfolio. Since the beginning of March, the Fund has concluded transactions on 9.3% of its portfolio by estimated rental value.

[1] 18 March 2020 to 10 June 2020

Highlights include:

- **Worcester** – the lease renewal 8% ahead of previous rent.
- **Coventry** – agreement for lease exchanged on 47,000 sq. ft industrial building 18% above previous passing rent.
- **Barking** – the letting of 10,000 sq. ft industrial building on a 10-year lease at a rent of £120,000 p.a. (£11.50 psf).

The portfolio is independently valued monthly and there has been an interim valuation as at 12th June 2020. Since the end of February 2020, the physical property portfolio has reduced in value by 2.4% as the valuers have become more cautious about the time taken to let units.

Investment Outlook

- Macro environment is supportive for the right real estate which is where we see sustained demand even in a post COVID-19 environment.
- Global search for income just got harder. Low interest rates are here for longer.
- We own NO physical retail.

BMO Global Asset Management