# Apollo Pan-European Fund
# Investor Report – June 2020

## 1. Introduction & Summary

The Apollo Pan-European Property Fund ("the Fund" or "the Friends First Fund") is a Friends First unit-linked fund (brought to you by Aviva) which holds a **13%** interest in a larger underlying fund ("the Portfolio") advised by **AXA Real Estate Investment Managers** ("AXA"). The Fund was launched to policyholders in 2007 as a closed-end geared property fund with an anticipated six to eight year term, **subject to market conditions**. Policyholders may not surrender their policy until the liquidation date of the Friends First Fund. The liquidation date is the date on which all of the property investments have been sold, any outstanding loans settled, legal matters resolved and the Portfolio structure is unwound. AXA is currently in the process of winding up the Portfolio structure. Please note that (life) policyholders have received back approximately 48.4% of original equity to date, by way of 14 coupon payments. (See Section 4 for further details).

There are now no properties remaining in the Portfolio, following the sale of **92** properties and **24** properties entering insolvency. The properties which have been sold on the open market were sold at 3% below the latest carrying values, on an overall basis, and 30% below cost.

The Portfolio's properties were originally acquired between 2006 and 2008, a time that is recognised to have been the **peak of the market** in recent decades. The properties were acquired with the objective of adding value through active management, either through lease restructuring or further redevelopment/refurbishment of the properties. Some properties were acquired outside of major cities, in areas where further development initiatives were expected to take place. Due to the unprecedented global economic downturn, these active management initiatives have proven very difficult to deliver. Development was no longer viable due to lack of demand and limited availability of finance.

## 2. Current Fund Performance

The unit price of the Fund for life policyholders is **€0.39** which represents a 7.1% decrease in the value since our last investor report (June 2019 when the unit price was €0.42). The decrease in price is primarily due to costs associated in liquidating the Portfolio and the legal costs associated with the court case.

| **Change in the value of (life) policyholders' remaining premium in the Fund** | | |
|---|---|---|
| | **Total fund €'m** | **Change in remaining equity %** |
| Initial premium | 57.7 | |
| Less unit deductions including coupon payments, death claims etc. [1] | (55.9) | |
| Remaining premium | 1.9 | 100% |
| Fund set-up costs | (0.1) | -4.2% |
| Investment return | (1.1) | -57.0% |
| **Value of remaining premium at 1 June 2020** | **€0.7** | **38.8%** |
| Number of remaining Units (m) | 1.9m | |
| **Unit Price for life policyholders' at 1 June 2020** | **€0.39** | |
| *[1] The deduction of investment units is the result of coupon payments paid to policyholders (or their assignees) to date (further detail in Section 4), cancellations and death claims.* | | |
| *[2] Figures may be affected by rounding.* | | |

The current price of **€0.39** represents a **61.2%** decrease in value of policyholders' remaining premium in the Fund which is explained as follows:

- **The sale of 92 properties in the portfolio at c.30% below historical cost on a blended basis.** It is important to remember that these properties were acquired at the peak of the market, mainly between 2006 and 2008. Total sales proceeds were €290m compared to their previous combined valuation of €300m and total cost of €413m.

- **Five investments (incorporating 24 properties) have gone through insolvency or liquidation processes** as a result of the property values falling and these investments becoming unsustainable relative to the outstanding loan balances. These were liquidated by their respective lending banks and therefore did not return any equity to the Portfolio.

- The impact of the above factors is further magnified by the level of debt (gearing) used to finance the Portfolio's property investments. There is no debt remaining in the Portfolio. Gearing amplifies the impact a movement in property value has on the level of equity, both on the way up, and on the way down. For example, at 60% loan-to-value (or gearing level), if property values falls by 20%, the related equity value falls by 50%.

- A 4.2% decrease due to fund set-up and upfront costs.

**3. Portfolio Update**

AXA is continuing to work through the liquidation of the Portfolio structure. As outlined in previous reports, there continues to be a "Reps and Warranties" claim outstanding on one Italian office property (Via Fara). The purchaser of the property has lodged a claim against the Portfolio. The claim has no foundation and has been disputed by AXA. Several attempts have been made by AXA to resolve the claim, but these have been unsuccessful. The case is now progressing through the Italian courts. The court met in February 2020 and both parties had until May to make further submissions. No date has been set for a final hearing. Following the final hearing, it is AXA's belief that there would then be an opportunity to appeal by either party which could lead to further delays. AXA continues to make every effort to reach agreement and resolve the claim outside of the court proceedings, however this has been unsuccessful to date.

There are also two bankruptcies relating to Luxembourg entities within the Portfolio structure that are delaying the final liquidation of the AXA Portfolio. AXA continues to chase the insolvency administrators for resolution of these cases, but this remains challenging as the insolvency administrators are not engaged by AXA and report directly to the courts.

Given the above, AXA has been trying to find a strategy for winding up the Portfolio that will allow the structure to be unwound while the legal case and bankruptcies are on-going. Unfortunately, this has proved difficult to achieve to date given the complexity of the legal proceedings. AXA are continuing to look at possible solutions that would mean they can liquidate the structure.

We understand this delay is disappointing however it is outside of Aviva's control. The Fund cannot be liquidated until the underlying Portfolio has been unwound and all remaining equity returned. The above matters are delaying the liquidation of the AXA Portfolio and are beyond AXA's control as they are reliant on third parties such as the courts and insolvency administrators to progress the matters. As a result of this it is difficult to predict an expected liquidation date for the Portfolio but AXA is hopeful a solution can be found by the end of 2020.

**4. Life Policyholders**

To date life policyholders (or their lending bank where the policy is assigned) have been repaid approximately 48.4% of their initial premium amount through 14 distributions (known as coupon payments), see table overleaf. The payments to life policyholders (which are not guaranteed and can only be made when sufficient surplus cash is available) are a repayment of policyholder premium (i.e. returning a portion of their original initial cash invested). At commencement, policyholders received an allocation of investment units in the Fund based on their net premium amount paid, after commission. As such, when initial premium is returned to policyholders by way of distribution, units with corresponding value have been cancelled at the prevailing unit price at the time of distribution. 95.9% of units have been cancelled to date, meaning the remaining 4.1% of units are valued at the current unit price of €0.39. The actual performance of your investment is the amount of premium repaid to date plus the value of your remaining premium amount. For life policyholders, this is currently c.€0.50. This return is made up of the 48% of your premium already returned through coupon payments plus the 2% of the current expected value of your policy remaining invested in the Fund.

| Apollo LIFE Fund - Coupon Example (based on €100,000 investment) | | Value | Units |
|---|---|---|---|
| Gross investment premium, say | | € 100,000 | |
| Broker commission, say 3% | | -€ 3,000 | |
| Net investment premium | | € 97,000 | |
| | | | |
| Initial allocated units | | | 97,000 units allocated |
| | | | |
| 14 x Coupon payments paid out as return of your premium | | A € 46,930 | 93,045 units cancelled* |
| *(48.4% of net investment premium)* | | | |
| | | | |
| **Remaining investment value at 1 June 2020** | **Unit Price €0.39** | B € 1,536 | **3,955 units remaining** |
| | | | |
| Approximate blended return on investment at 1 June 2020 | €0.50 | A+B € 48,465 | *(not guaranteed)* |
| | | | |
| *Units are cancelled at the prevailing unit price, at the time of coupon payments. The effective unit price of total units cancelled was c.€0.50 (i.e. €46,930/93,045) units) | | | |

## 5. Pension Policyholders

Coupon payments for the Fund's pension policyholders are invested in a Friends First cash fund (which can increase and decrease in value) on behalf of pension policyholders. This forms part of the value of the Fund's pension policyholders' investment. In January 2016, January 2017 and June 2017, we wrote to pension policyholders giving them the opportunity to reallocate the cash element of their investment to another Friends First fund. The unit price of the Apollo Pension Fund is currently c.€0.43 This price relates only to the value of the remaining units of the Apollo Pension Fund. It does not include the value of units switched to the cash fund or any other Friends First's fund.

## 6. Conclusion

The value of the Fund, and the related return for policyholders, is a function of the performance of the Portfolio. The Portfolio consisted of a range of value-add properties across Europe, as outlined in the brochure. The Fund return can be somewhat attributed to the timing of the Fund launch. The Fund was launched in early-2007, with the properties in the Portfolio being acquired between 2006 and 2008. This period is now known to have been the peak of the market in recent decades. The unprecedented global economic downturn that followed meant that rental levels and capital values rapidly declined, tenants ran into difficulties, and in addition, planned development programmes were no longer viable (either due to lack of demand, or unavailability of finance). Given the original strategy for the Portfolio (to acquire properties with active management angles), performance has suffered as the value-add initiatives have not fully materialised. AXA is currently in the process of winding up the Portfolio structure, however this cannot be completed until a solution is found for the purchaser's claim on Via Fara and the two Luxembourg bankruptcies are completed. As a result of this it is difficult to predict an expected liquidation for the Portfolio but AXA are hopeful a solution can be found by the end of 2020.

As set out in the product documentation, this is a closed-end fund and policyholders will not be able to withdraw their investment before the liquidation date of the Fund. Aviva monitors the cash level within the Fund and will return remaining premium to policyholders as soon as possible.

The information on this document does not constitute investment advice. It does not take into account the investment objectives, financial position or needs of any particular investor. Before making any investment decisions, you should consult suitably qualified and independent investment, taxation and regulatory advisors to discuss your specific situation and investment objectives.

**Warning: Past performance is not a reliable guide to future performance.**
**Warning: The value of your investment may go down as well as up.**