

Curzon Pan-European Insight Property Fund Investor Report – June 2020

1. Introduction & Summary

The Pan-European Insight Property Fund (“The Fund” or “The Friends First Fund”) is a Friends First unit linked fund (brought to you by Aviva) invested in a larger underlying fund (“the Portfolio”) managed by **AEW**. The Fund was launched to policyholders in 2006 as a closed end, geared property fund with an original eight year term, subject to market conditions. Policyholders may not surrender their remaining premium in the Pan-European Insight Property Fund until its liquidation date. The liquidation date is the date on which the underlying Portfolio has been fully liquidated (when all of the investments of the Portfolio have been sold, any outstanding loans have been settled and the Portfolio structure is unwound).

All the properties in the Portfolio have now been divested. AEW continues to focus on the liquidation of the Portfolio. The liquidation is expected to be completed in H2 2020. The Friends First Fund represents 6.4% of the underlying AEW Portfolio.

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 development 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.

Friends First has facilitated four cash switches from the Fund to the Cash (Series 6) Fund, in order to provide policyholders with access to returned equity from the underlying AEW Fund. Policyholders have to date been given access to approximately 81.6% of their original premium (see table overleaf).

2. Cash Fund Switches

AEW has distributed the net proceeds (i.e. sales price less sales costs less outstanding bank loan) from property disposals to date to institutional investors, including Friends First (Aviva). Friends First (Aviva) has facilitated four out-of-course cash switches to the Cash (Series 6) Fund, in order to provide policyholders (or their assignees) with access to their returned premium (c.81.6% of initial allocated investment, net of broker commission). To facilitate this, a corresponding number of policyholders’ units in the Curzon Pan-European Insight Property Fund were switched into units in the Cash (Series 6) Fund. See table overleaf which explains the impact of these cash fund switches on your overall initial premium together with your remaining units in the Fund. Please note, this report only addresses your investment in the Curzon Pan-European Insight Property Fund.

The actual performance of your investment is the value of premium switched to date plus the value of your remaining investment amount. This is currently c.€0.83 (see example overleaf) but this is not guaranteed, and will depend on the future performance of the Portfolio. The €0.83 is made up of the 81.6% switched to the Cash (Series 6) Fund and the current expected return of 1.4% of initial premium remaining invested in the Fund.

Cash Fund Switches cont'd

SAMPLE INVESTMENT - €100K	Price	Units	Euros
Original premium invested		€	100,000
less commission, say 3%		(€	3,000)
Initial premium invested		97,000 €	97,000
Cash switch Nov 2011	0.94	-29,100 €	27,441
Cash switch April 2014	0.84	-38,703 €	32,363
Cash switch May 2016	0.78	-19,854 €	15,409
Cash switch Nov 2018	0.60	-6,540 €	3,954
Total cash switches (78% of initial premium invested)		A €	79,167
Remaining units at 1 June 2020 price (5.8% of initial premium invested)	0.54	2,803 B €	1,505
Approximate blended return*	0.83	A+B €	80,672

**This is not guaranteed and will depend on the performance of the fund between now and liquidation. It will also depend on whether you surrendered from the Cash (Series 6) Fund immediately, or whether you remained in the Cash (Series 6) Fund or opted to switch to another Friends First fund.*

3. Current Price

The unit price of the Fund represents the value of policyholders' remaining investment in the Fund following the previous switches to the Cash (Series 6) Fund. The unit price of the remaining units in the Fund is **€0.54** which is a decrease of 3.6% since the last investment report in June 2019 (€0.56). This decrease is primarily as a result liquidation costs incurred with the windup of the Portfolio structure.

Change in the value of policyholders' remaining investment in the Fund		
	Total Fund €'m	% change
Initial premium	23.80	
Less unit deductions*	(23.16)	
Remaining premium	0.64	100.0%
Up Front & Fund set-up costs	(0.02)	-3.4%
Investment return	(0.28)	-42.9%
Value of policyholders' remaining premium	0.35	53.7%
Number of Units ¹	0.64m	
Unit Price at 1 June 2020	€0.54	

Note: Figures may be affected by rounding.

¹ Units were deducted for the November 2011, April 2014, May 2016 & November 2018 allocations of policyholders' units to the Cash (Series 6) Fund (as well as for death claims and exceptional financial circumstances)

Current price cont'd

The current unit price represents a **46.3%** decrease in value of policyholders' remaining premium which includes a 3.4% decrease due to Fund set-up and upfront costs.

The table on page 2 reflects the value of policyholders' remaining units in the Fund, after the four previous cash fund switches (November 2011, April 2014, May 2016 and November 2018).

42.9% of the decrease is primarily due to the reduction in the value of the underlying investment in the Portfolio since the global property market downturn. The unit price currently reflects the Portfolio value based on the Net Asset Value (NAV) provided in AEW's Report at 31 March 2020. **The primary factors contributing to the decrease in the Portfolio value include:**

- The disposal of 75 Portfolio property investments at a combined loss of €131m (18% below total cost). However in addition, as previously reported, the Portfolio equity invested in the Osterley German office was fully written down as the lending bank took ownership of the property, and this is reflected in the Fund's unit price; and
- The above factors were somewhat offset by positive net rental cashflows from the Portfolio.

4. Portfolio Management – Remaining Portfolio

AEW continues to focus on liquidating the Portfolio structure. In order to liquidate the Portfolio all of the entities within the structure need to produce final accounts and tax filings. Since the last investment update the small final payment due back in relation to French withholding tax from the sale of the last three French assets was received (H1 2020). This will allow AEW to complete the liquidation of the Portfolio structure and to distribute the final equity payment to investors such as Friends First (Aviva) for onward distribution to policyholders. AEW currently expects to complete the liquidation of the Portfolio structure in H2 2020.

Conclusion

The value of the Fund, and the related return for policyholders, is a function of the performance of the Portfolio. The Fund was launched in 2006, 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, 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 strategies), performance of some of the properties has suffered as the value-add initiatives have not fully materialised.

As set out in the product documentation, this is a closed fund and policyholders will not be able to withdraw their remaining investment in the Fund before the liquidation date of the Fund. The liquidation date is the date on which the underlying Portfolio has been fully liquidated (when all of the investments of the Portfolio have been sold, any outstanding liabilities have been settled and the Portfolio structure is unwound). AEW currently expects the liquidation of the Portfolio to be completed in H2 2020.

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.