

Insight Property Fund 2 Investment Report March 2020

Introduction

The Insight Property Fund 2 (“The IPF 2 Fund” or “The Fund”) is a Friends First unit linked fund (brought to you by Aviva). The IPF 2 Fund is invested in BMO Real Estate Investments Limited (“the Trust” or “the BMO Trust”) formerly known as F&C UK Real Estate Investments Limited which is managed by BMO Asset Managers formerly F&C (the “Manager”). In November 2019, the Manager and the trust were rebranded under the BMO name following their acquisition in 2014.

The Trust is a geared UK commercial property trust that holds a portfolio of commercial properties located throughout the UK (“the Portfolio”).

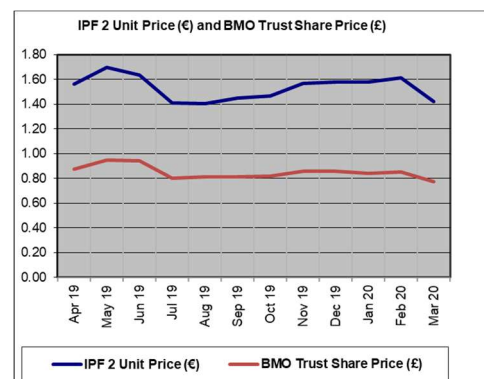
The IPF 2 Fund has paid bi-annual coupons to policyholders who selected this option at commencement. The coupons are arising from distributions paid to the Fund by the BMO Trust. These coupons are accounted for as a repayment of policyholders’ initial investment value and are paid with a corresponding deduction in the number of units invested by policyholders in the Fund.

The IPF 2 Fund was launched in 2004. It has operated as an open-ended fund since June 2009. As a result, **policyholders have the option to remain invested in the IPF 2 Fund, surrender their policy without incurring encashment penalties, or they may transfer their policy value into other specified Friends First funds.**

Current Investment Performance²

As at 1 March 2020, the IPF 2 Fund had a unit price of **€1.42**¹. The value of the IPF 2 Fund’s unit price is related to the price that the BMO Trust is trading on the London Stock Exchange (the BMO Trust is a listed property trust).

Summary Information	
IPF 2 Unit Price 1 March 2020	€1.4192
BMO Trust Share Price 1 March 2020	£0.7720
BMO Trust NAV per share 31 December 2019	£1.0261
BMO Trust share price to NAV discount at 31 December 2019	-18.14%



The share price of the Fund closely tracks the market’s outlook for the BMO Trust’s property portfolio. Based on the demand for the shares and investor sentiment, the BMO Trust share price may trade at either a premium or discount to the Net Asset Value (NAV) per share of the BMO Trust. The most recently reported NAV for the BMO Trust was £1.03 per share at 31 December 2019. The shares of the BMO Trust were trading at £0.84 or an 18% discount to the NAV on 31 December 2019. This reflects the market’s outlook for the BMO Trust share price at that date.

Foreign exchange

The decline in the value of Sterling against the Euro since 2004 has had a negative impact on the unit price of IPF 2 as the sterling denominated shares in the BMO Trust are converted back into Euro at the prevailing exchange rate to calculate the unit price for IPF 2 policyholders. At 1 March 2020, the Euro: Sterling exchange rate was €1: £0.86. The recent weakening of Sterling versus the Euro has increased the unrealised foreign exchange loss on your investment.

¹ Note: Values are not guaranteed, prices can fall as well as rise.

Past performance is not a reliable guide to the future performance of your investment.

² This report is based on information before the COVID-19 outbreak in Europe.

Market Commentary²

Total returns for the UK property market, as measured by the MSCI UK Quarterly Property Index for Quarterly and Monthly Valued Funds (the 'Index'), weakened further in the fourth quarter of 2019 to be barely positive at 0.03% at the all-property level. All-property capital values fell by 1.1%, with rental growth at minus 0.5%. The annual all-property total return slowed to 1.3%, underpinned by a 4.5% positive income return.

Although Brexit and its related political challenges remained a major factor in the final quarter of 2019, the conclusive general election result appears to have led to some improvement in sentiment, as some of the uncertainty regarding Brexit dissipated. Additionally, hopes of future fiscal easing and a prolonged period of low interest rates provided support. However, UK economic growth is muted, while economic growth in the eurozone is also subdued.

Investment transaction levels improved markedly in the fourth quarter of 2019, driven mainly by the strength of overseas demand after the general election, and as a result, total volumes moved above the long-term average. However, institutions were still net sellers of property and retail open-ended property funds saw consistent outflows. Local authorities remained net buyers but property companies, both private and public, were net sellers in the final quarter of 2019. Bank lending for property investment, although volatile, was positive but development was less favoured. By sector, the quarterly improvement was focused on central London offices, industrials and leisure.

The final quarter of 2019 again saw retail property dragging down the all-property average. Retail delivered a quarterly total return of minus 2.8%, with the three main sub-markets of standard retail, shopping centres and retail warehousing all recording negative total returns. Offices recorded a 1.2% total return, marginally higher than in the previous quarter and led by central London offices. Industrial/distribution continued to outperform in terms of total returns at 1.7%, with the South East outperforming other regions. Alternatives delivered a 1.2% quarterly total return. All-property annual rental growth was minus 0.7%, reflecting a 5.1% drop in the retail segment. In contrast, industrials recorded 2.8% growth with offices and alternatives delivering 1.4% and 0.6%, respectively.

BMO Trust's Portfolio Commentary²

The BMO Trust's portfolio delivered a total return of 0.5% over the fourth quarter of 2019, led again by an income return of 1.3%. Capital returns were minus 0.8%, with net disinvestment of £3.5m linked to the disposal of two assets from the retail portfolio. The BMO Trust's portfolio delivered an ungeared return of 3.3% over the 12 months to December 2019 versus the Index return of 1.3%, an outperformance of 2%. The BMO Trust's portfolio outperformed the MSCI IPD Quarterly Index over one, three and five years.

Office and industrial continue to deliver positive returns, with offices returning 2.8% over the final quarter of 2019 and industrials returning 1.4%. Both segments of the portfolio recorded capital value growth as a result of positive sentiment for those submarkets and underlying asset management initiatives. Office assets make up 29% of the total portfolio, with the industrial and logistics assets (all located in the South East) now 42% of the portfolio by value. These properties continue to offer good prospects for income growth and active management. Standard retail, 11.7% of the portfolio by value at December 2019, suffered capital value falls of 5.0%, with the Company's retail warehouse assets (17.7% of assets by value) falling 3%. In aggregate, the Company's retail assets marginally outperformed their peers. Despite isolated recent transactional evidence supporting at least some liquidity for retail assets, sentiment remains particularly negative towards this sector, with continued uncertainty from the occupier markets and overall transaction volumes depressed.

Against this challenging backdrop, the BMO Trust successfully completed the disposal of two retail assets for £13.65 million. The first, a multi-let high street block on the Parade and Warwick Street in Leamington Spa with an average lease term of 2.8 years to break, was sold for £6.9 million in November 2019. The second, a retail warehouse in Rotherham, was sold for £6.75 million in December 2019 to an owner-occupier. The unit was occupied by Homebase. In aggregate, these sales were secured at 1% below the market valuation as at the third quarter of 2019.

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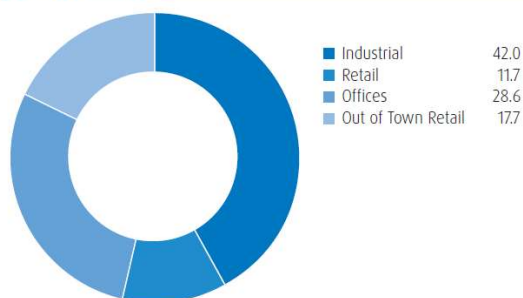
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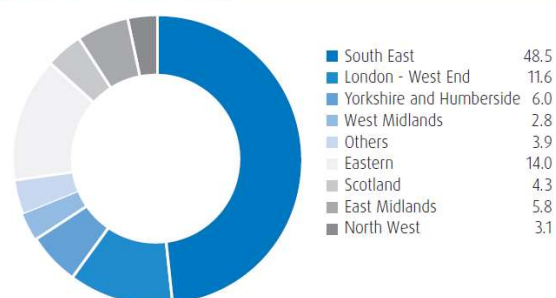
The average weighted unexpired lease term of the BMO Trust portfolio is in excess of six years.

Although market performance was subdued in the last quarter, there are tentative signs of improved sentiment and a greater willingness by both occupiers and investors to commit. Retail is an exception and a further correction seems probable, but elsewhere the market may be better balanced. Although BMO anticipate that the coming year could deliver a sub-par performance, a period of low interest rates and possible fiscal easing could help prolong the property market cycle and contribute to an upturn once the Brexit process has completed. Investors may be attracted by the UK's relatively attractive property yields and its large, transparent and relatively liquid property market. Performance is being driven by the income return.

Sector breakdown



Geographical breakdown



Top 10 property investments (%)

London W1, 14 Berkeley Street	9.0
Banbury, 3663 Unit, Echo Park	7.4
Colnbrook, Units 1-8 Lakeside Road	7.0
Eastleigh, Southampton International Park	6.0
Hemel Hempstead, Hemel Gateway	4.9
York, Clifton Moor Gate	4.0
Bracknell, 1/2 Network Bracknell, Eastern Road	3.8
Theale, Maxi Centre	3.6
Edinburgh, 1-2 Lochside Way, Edinburgh Park	3.4
Eastleigh, Wide Lane	3.3
Total	52.4

Borrowing

The net gearing of the BMO Trust as at 31 December was 24.20%. This comprises the bank debt (less net current assets, excluding swap liability) divided by fair value of investment properties.

The IPF 2 Fund is continuing to operate as an open-ended fund. Therefore, policyholders have the options of remaining invested in the Fund; surrendering their policy value without incurring encashment penalties or transferring their fund value into another specified Friends First fund.

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.

Warning: This fund may be affected by changes in currency exchange rates.