

Insight Property Fund 3 Investment Report – June 2020

Introduction

The Insight Property Fund 3 (“the IPF 3 Fund”, “the Fund”) is a Friends First unit linked fund (brought to you by Aviva). The Fund invested in two geared property portfolios with the objective of enhancing their value by active lease management and selected refurbishment/redevelopment where appropriate.

1. The wholly owned **Dutch Property Portfolio** (now sold) originally consisted of five office properties in Amsterdam and was managed by F&C REIT’s property management team. The five properties were sold between 2008 and 2013.
2. The Fund has a **7% interest in a French Property Portfolio** managed by FOSCA Managers (previously MAAF Real Estate Investment Managers). The French Property Portfolio originally consisted of 19 mixed use and multi-let properties focused in Paris. The 19 properties are now all sold following the sale of the last property in Q3 2017. The property manager is now focused on liquidating the Portfolio structure.

The IPF 3 Fund was launched to investors in 2004 as a closed end fund, with an expected term of eight years **subject to market conditions**. Policyholders invested in the Fund through their pension, may not encash their investment in the Fund before the liquidation date, which is when all of the wholly owned property assets of the Fund have been sold, any outstanding liabilities have been settled and the underlying French Property Portfolio has been fully liquidated.

Investment Summary

To date, 104% of original equity invested in the IPF 3 Fund has been transferred, via four “cash switches”, to the Friends First cash fund. A communication was sent to policyholders at the time of each switch to advise them of the options available to them.

The current blended unit price of your premium in the Fund is €1.06 (C in the table below).

The table below illustrates the total value of cash switch payments made to date (A) and the residual value (B) of the IPF3 element of the policy at 1 June 2020, based on a sample investment of €100,000

SAMPLE INVESTMENT - €100K		Euros
Original equity invested ¹	€	100,000
Cash switch June 2014	€	23,926
Cash switch April 2016	€	62,590
Cash switch August 2017	€	9,647
Cash switch November 2019	€	8,237
Total cash switches to date	A €	104,399
Remaining value in IPF 3 at 1 June 2020	Unit Price €1.30 B €	1,117
Approximate blended return²	C €	1.06

¹ This example assumes that no broker commission was deducted.

² 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 Fund immediately, or whether you remained in the Cash Fund or opted to switch to another Friends First fund.

Following the liquidation of the French Property Portfolio and the final distribution of equity to the Fund, the residual value of your policy will be made available to you via a final cash switch. We currently expect to liquidate the Fund in H2 2020.

Current Investment Performance

The unit price of the remaining units in the IPF 3 Fund at 1 June 2020 is **€1.30** which is **an increase of 21.5% since our last investment update** (June 2019 when the unit price was €1.07). This increase in price is a result of a write back in provisions relating to the “Reps and Warranties” which have now expired.

Please note that the table below, and the unit price, applies to the remaining investment units you have in the IPF 3 Fund element of your policy only (i.e. this excludes any of the cash switched element).

Change in the value of policyholders' investment in IPF 3 Fund		
	Total €m	%
Initial premium	29.00	
Less Unit deductions*	(28.82)	
Policyholders' remaining investment	0.18	100.0%
Fund set-up costs	(0.00)	-2.7%
Acquisition Costs	(0.03)	-17.1%
Investment Return	0.09	49.3%
Value of policyholders' remaining premium at 1 June 2020	0.24	129.5%
No. of Units (m)	0.18	
Unit Price at 1 June 2020	€1.30	
<i>Note: figures are affected by rounding</i>		
<i>* Units were deducted for cash switches (June 2014, April 2016, August 2017 & November 2019) which involved allocations of policyholders' units to the Cash Fund (as well as for death claim and exceptional financial circumstances)</i>		

The current unit price of **€1.30** represents a 29.5% increase in the value of policyholders' **remaining** premium in the Fund since commencement. This increase is due to:

- **Positive investment return** since commencement of **49.3%** of residual IPF 3 Fund premium. This reflects the profitable sale of 19 French properties, combined with the sale of the five Dutch properties below their historical cost (as outlined in previous reports) and the surplus rental cashflows of both portfolios which were used to partially repay bank debt. The effect of these factors on the value of fund premium invested in the French and Dutch portfolios was amplified by the level of debt (gearing) used to finance both portfolio's property investments.

However, the positive investment return is partially offset by:

- **Fund set up and upfront costs** which amounted to **2.7%** of policyholders' equity.
- **Property acquisition costs** for the French and Dutch portfolios which amounted to **17.1%** of policyholders' equity.

French Portfolio

As outlined in our previous investment update, some of the original properties in the French Property Portfolio were sold with certain limited guarantees attached (“Reps and Warranties”). All these Reps and Warranties have now expired and FOSCA is focused on finalising the liquidation of the French Portfolio structure. The current expectation is that the FOSCA Portfolio will be liquidated in H2 2020. Once the FOSCA Portfolio has been liquidated, the remaining equity will be returned to the Insight Property Fund 3. This will allow Aviva to liquidate the Fund and make available the remaining premium to policyholders.

Conclusion

To date, 104% of original equity invested in the IPF 3 Fund has been transferred, via three “cash switches”, to the Friends First cash fund and made available to policyholders for reinvestment into other Friends First funds. We expect to liquidate the IPF 3 Fund once the underlying French Property Portfolio has been wound up, with our expected timeframe being H2 2020. Following this, the residual value of your policy will be made available to you via a final cash switch.

Policyholders invested in the Fund may not surrender the remaining IPF 3 element of their policy before the liquidation date of the Fund which is when all the property assets of the Fund have been sold and the underlying French Property Portfolio has been liquidated.

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.