

Insight Property Fund 5 Investment Report March 2020

Introduction

The Insight Property Fund 5 (“The IPF 5 Fund” or “The Fund”) is a Friends First unit linked fund (brought to you by Aviva). The value of the Fund is linked to a stock market listed property trust, BMO Commercial Property Trust Limited formerly known as F&C Commercial Property Trust Limited (the “Trust” or “the BMO Trust”) which is managed by BMO Asset Managers formerly F&C Asset Managers Group plc (the “Manager”). In November 2019 the Manager and the trust were rebranded under the BMO name following their acquisition in 2014.

The BMO Trust is a geared UK commercial property trust which holds properties throughout the UK (“the Portfolio”).

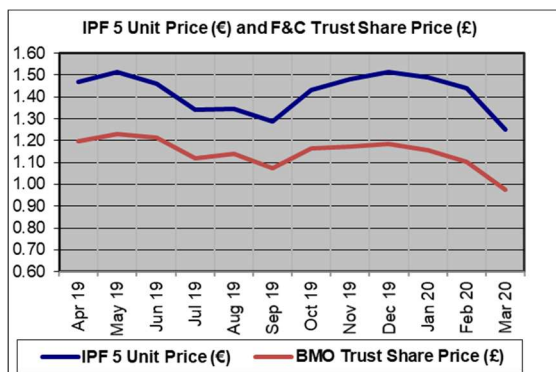
The IPF 5 Fund has paid bi-annual coupons to policyholders, where policyholders selected this option at commencement. The coupons arise from distributions paid to the Fund by the Trust. These coupons are treated as a repayment of policyholders’ initial investment value and are paid with a corresponding deduction in the number of units invested by policyholders in the Fund.

The IPF 5 Fund was launched as a closed-end fund in June 2005. It has operated as an open-ended fund since June 2010. As a result, **policyholders have the option to remain invested in the IPF 5 Fund, or may surrender their policy without incurring encashment penalties, or may transfer their policy value into other specified Friends First funds.**

Investment performance²

As at 1 March 2020, the IPF 5 Fund had a unit price of €1.25¹. The value of the IPF 5 Fund’s unit price is related to the price that BMO Trust is trading at on the London Stock Exchange, as it is a listed property trust. The below graph illustrates the correlation between the IPF 5 Fund unit price and the price of the BMO Trust.

Summary Information	
IPF 5 Unit Price 1 March 2020	€1.2509
BMO Trust Share Price 1 March 2020	£0.9740
BMO Trust NAV per share 31 December 2019	£1.3090
BMO Trust share price to NAV discount at 31 December 2019	-11.7%



The share price of the BMO Trust closely tracks the outlook for the Trust’s property portfolio. Based on the demand for the shares and investor sentiment, the BMO Trust share price has traded at either a premium or a discount to the Net Asset Value (NAV) per share of the Trust. The most recently reported NAV for the BMO Trust was £1.31 per share at 31 December 2019. The shares of the BMO Trust were trading at £1.16 a discount of 11.7% on the December NAV, reflecting 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 2005 has had a negative impact on the unit price of IPF 5 as the sterling denominated shares in the BMO Trust are converted back into Euro at the prevailing exchange rate to calculate the unit price of the Fund for IPF 5 policyholders. At 31 December 2019, the Euro: Sterling exchange rate was €1: £0.86. The continued 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

In December 2019, UK commercial real estate delivered a total return of 0.3% over the quarter according to the MSCI UK Monthly Index. All property capital values fell by 1.0%. Retail properties continue to be impacted by both the distress in the occupier markets and a re-rating of pricing. Capital values fell by 4.4% over the period. The office and industrial sectors were reasonably solid, recording positive total returns of 1.5% and 1.9% respectively. Activity in the capital markets increased post the General Election with a flurry of deals completing prior to the year end.

BMO Trust's Portfolio Commentary²

The Trust's property portfolio delivered an ungeared total return of minus 0.3% over the quarter to December 2019. The portfolio suffered a 1.4% fall in capital values with the retail properties and other commercial properties let to retailers, suffering the largest fall in values.

The most significant falls in the portfolio were follows:

- The Crescent, Wimbledon, had the estimated rental value of the retail units reduced and the capitalisation rate moved out 60 basis points, equating to a fall in value of 6.1%.
- Capitalisation rates continued to move out in the retail warehouse sector resulting in the Company's two largest retail warehouses at Newbury and Solihull falling in value by a combined 3.4%.
- The value of St. Christopher's Place fell 0.8% due to the continued re-basing of rental values along Oxford Street with the value of the remainder of the Estate largely holding firm.
- The logistics portfolio was adversely affected by the property at Daventry which is let to Mothercare. The property benefits from a rental guarantee from a Mothercare company not in Administration, but the valuers moved the yield out by 75 basis points (12% fall in capital value) to reflect the uncertainty surrounding the covenant.

One letting of particular note post the year end was the completion of an unconditional letting to Marks & Spencer at Sears Retail Park, Solihull, significantly expanding the retailers existing presence on the park. The lease is for a redeveloped 35,000 sq. ft store which was formerly a Homebase. This is on a 20-year lease (breaks year 10 and 15) at an uplift on the previous passing rent. As part of the redevelopment, the new store will be combined with Marks & Spencer's adjacent Food Hall. The combined store will create an 82,000 sq. ft. store incorporating General Merchandise, a larger Food Hall, as well as a Marks & Spencer Café. It is expected that the new premises will be handed over to M&S for fit out upon completion of the redevelopment at the end of 2020. This is a high-profile initiative which reflects Marks & Spencer's satisfaction with the location and supports the ongoing appetite from selected retail brands for the right space, in the right locations.

Construction works have started at Newbury Retail Park to create new stores for Lidl and Deichman Shoes and it is hoped these new lettings will attract other new retailers to the park.

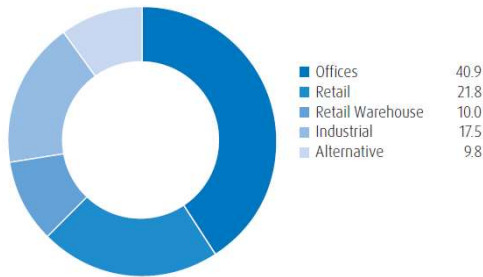
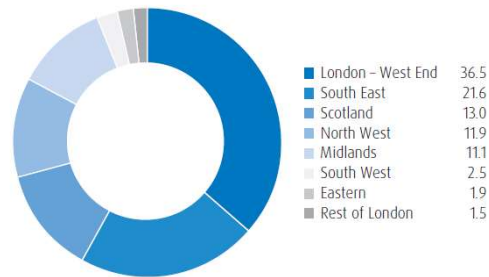
The void rate on the Company's portfolio was 4.8% as at 31 December 2019, prior to the new letting at Solihull.

There were no sales or purchases during the quarter.

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Sector Breakdown

Geographical breakdown

Top 10 property investments

	Holding	Location	Sector
Properties valued in excess of £250 million	London W1, St Christopher's Place Estate	West End	Mixed
Properties valued between £100 million and £150 million	London SW1, Cassini House, St James's Street	West End	Office
Properties valued between £50 million and £70 million	Newbury, Newbury Retail Park	South East	Retail Warehouse
	Solihull, Sears Retail Park	West Midlands	Retail Warehouse
	London SW19, Wimbledon Broadway	South East	Mixed
Properties valued between £40 million and £50 million	Crawley, Leonardo House, Manor Royal	South East	Office
	Winchester, Burma Road	South East	Alternative
	Manchester, 82 King St	North West	Office
Properties valued between £30 million and £40 million	Aberdeen, Unit 2 Prime Four Business Park, Kingswells	Scotland	Office
	Aberdeen, Unit 1 Prime Four Business Park, Kingswells	Scotland	Office

Portfolio banking

As at 31 December 2020, BMO Trust reported gearing of 21.3% (Borrowings less cash) divided by total assets (less current liabilities and cash).

The IPF 5 Fund is continuing to operate as an open-ended fund. Therefore, policyholders have the options of remaining invested in IPF 5; 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.