

In the lead up to, and following the result of the UK EU Referendum there have been large scale outflows from commercial property funds. In response to this Standard Life, Aviva Investors, M&G, Henderson, Canada Life and Columbia Threadneedle have all taken the decision to temporarily suspend redemptions in their UK Real Estate Funds. Additionally, Aberdeen has introduced a dilution adjustment on its UK property fund, meaning investors can exit the fund but at a price reduced by 17%. These developments have come just days after a number of commercial property fund managers applied 'fair value adjustments' to reduce the value of their holdings before formal independent valuations. The Legal & General Property fund remains open for trading at the time of writing but is applying a 15% "fair value adjustment" to the price. Given the current market environment and increased uncertainty for valuations, most open-ended UK commercial property funds have also moved from monthly to weekly valuations.

The actions taken by these fund groups is intended to protect the interests of long term holders in the property fund and reflects the difficulty with pricing relatively illiquid property assets. Listed shares and bonds are frequently traded and are widely held, this creates liquidity and a transparent price setting process. Physical property assets, on the other hand, have unique features and can take several months to sell. It is therefore harder for property funds to meet the demand for large scale redemptions once their reserves of cash and liquid assets such as listed real estate securities have been exhausted. The only option then is to suspend trading until some properties can be sold to meet redemptions. The funds will continue to be actively managed and the situation will be reviewed on a monthly basis to see whether they are able to re-commence trading.

Property funds have not formed a core element of our portfolios for some time but a number of our clients have some exposure to these funds and we will continue to monitor this situation closely.

Georgina Ogilvie-Jones

Friday 8th July

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The value of investments can go down in value as well as up, so you could get back less than you invest. It should be remembered that past performance is not necessarily a guide to future performance.

Our research is undertaken and views are expressed with all reasonable care and are not knowingly misleading. Any information provided in this document is obtained from sources that we consider to be reasonable and trustworthy but accuracy cannot be guaranteed.

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