

Asset class insight: Property

An in-depth review of the Property investments held in PruFund. These reviews are updated every six months with the latest details available at the time of publishing.

Introduction

This update from the M&G Treasury & Investment Office (T&IO) provides an insight into the characteristics of the property portfolio within the PruFund range of funds and the strength of the M&G Real Estate team who T&IO work with to create, manage and monitor underlying investments.

This update covers the standard rather than Planet versions of PruFund.

We hope to highlight the key differentiators and strengths including;

- Leveraging off the resource and expertise within M&G Real Estate
- The global exposure to high quality assets
- Using segregated pools of assets or large scale institutional funds to best capture opportunities
- Importance of active management
- Ability to invest in development projects
- The ongoing work to enhance the 'environmental' credentials of portfolios

PruFund Growth invests into over 150 property assets globally. The majority are directly held assets or joint ventures, although some exposures are via collectives/indirect funds, which themselves invest in 100s of underlying properties.

The M&G Real Estate team, who run the underlying property funds within PruFunds, focus on income as the principal driver of long-term return but also look to achieve capital growth through exploitation of market mispricing, sector allocation and individual asset allocation.

Characteristics of property portfolios within the PruFund range of funds

Expertise – M&G Real Estate have decades of experience in buying, selling and managing properties, which has helped to shape their investment approach. This focuses in identifying fundamentally well located assets that are underpinned by favourable structural and demographic trends

Global exposure – increased allocations to European and Asian property market in recent years with UK still the core holding

Diversification – commercial property has provided consistent risk adjusted returns to PruFund portfolios over many years. The evolution of different strategies in the UK and overseas, provides further diversification through increased exposure to alternative sectors such as residential property and student housing assets

Scale – enables investment in large, high quality assets and also the ability to invest in development projects like in Edinburgh's Haymarket and 40 Leadenhall in London

Active management – means the portfolios can evolve as markets change, for example reducing exposure to smaller retail assets in the UK has been a theme for several years due to the challenge from online retail

Access to new opportunities – and the ability to offer a range of innovative solutions, is supported by their scale, experience, depth of knowledge and strong industry experience in the markets where they operate

Environmental Social Governance (ESG) – as a responsible investor, M&G Real Estate aim to deliver better outcomes for their investors and society. Promoting environmental excellence; health, wellbeing and occupier experience; and a positive contribution to society are their core pillars of focus

Real assets – property offers an element of inflation protection over the medium-to long term

Please note when clients invest in property funds there may be times when they can't immediately access their money as property can take a long time to sell.

The value of any investment (and any income taken from it) can go down as well as up so your customer might not get back the amount they put in.

The views expressed in this document should not be taken as advice or a recommendation.

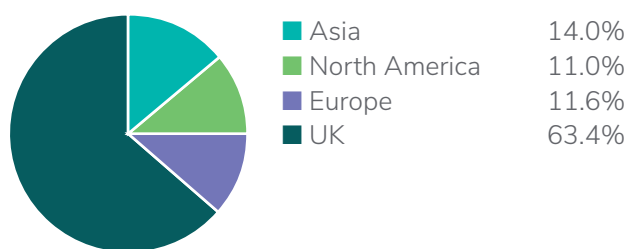
Strategic Asset Allocation (total fund level) for PruFund Growth

Asset	Fund Name	Investment Style	Internally or Externally managed
UK Property	Life Fund Property Portfolio (Mixture of global directly held assets, Core Balanced Collectives and Sector Specialist Collectives)	Active	Internal
Europe Property	Life Fund Property Portfolio (Mixture of global directly held assets, Core Balanced Collectives and Sector Specialist Collectives)	Active	Internal
North America Property	Life Fund Property Portfolio (Mixture of global directly held assets, Core Balanced Collectives and Sector Specialist Collectives)	Active	Internal (and indirectly external)
Asia Property	Life Fund Property Portfolio (Mixture of global directly held assets, Core Balanced Collectives and Sector Specialist Collectives)	Active	Internal

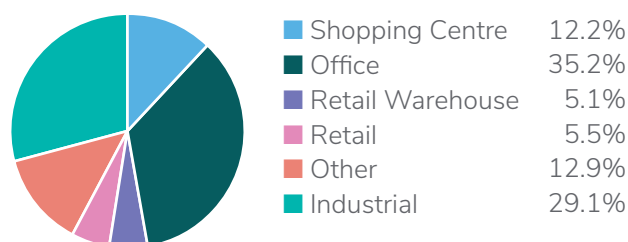
(source T&IO and Pru Actuarial team as at 30.06.2023)

PruFund Growth Summary

Regional Weights



Sector Weights



(Source – M&G Real Estate % of global property portfolio as at 31.03.2023)

Fund Activity (commentary from M&G Real Estate as at 31.03.2023)

In the UK, fund strategy remains focused on divesting out of non-strategic retail and office assets. In the past 12 months, the fund has completed 11 sales for a total of £260m comprising 5 high street shops (£15m), two stand-alone office in the South East (£145m).

In North America the fund increased its industrial exposure through investment in the Clarion Lion Industrial Trust with a second and final drawdown in January. The total invested into this fund is now £128m.

In Europe, the fund received its first drawdown notice from the newly launched M&G European Living Fund. The capital was invested in the fund's first purchase-a residential asset in Helsinki (£67m).

In terms of rent collection, the fund has achieved collection rates of 98% for Q1 2023. The highest collection rates are in industrial at 100% and retail remains lowest at 96%.

UK key statistics

KPI	March 2023	December 2022
Asset Value	£8.079bn	£8.225bn
Number of assets	144	146
Average Lot Size	£56.1m	£56.3m
Value of largest holding	9.0% (40 Leadenhall)	8.5% (40 Leadenhall)
Value of largest tenant (% of rent roll)	6.9% (Ashurst)	6.7% (Ashurst)
Number of Developments	3	5
Development Exposure	10.5%	11.5%
Net Initial Yield	4.6%	4.3%
Net Equivalent Yield	6.6%	5.1%
Vacancy % of ERV	10.3%	10.5%
WAULT* (including breaks), years	8.5	8.2

(Source – M&G Real Estate as at 31.03.2023)

* weighted average unexpired lease expiry below

Investment transactions

Acquisitions

Date	Asset	Sector	Town	Country	Sale price, £m	Comment
01 Apr 22	PACL Investment in Bluewater Ground Lease Limited	Other	Other	UK	42	Acquisition of additional stake in Bluewater.
28 Apr 22	GTA Everlast	Industrial	Toronto	Canada	92.8	Acquisition of 21 unit industrial value add portfolio in Mississauga, Toronto
27 Sep 22	ELIV	Residential		Europe	67.5	Drawdown into the newly launched M&G European Living Fund.
03 Oct 22	Clarion Lion Industrial Trust	Industrial		US	66.1	1st Drawdown into the Clarion LIT specialist US industrial fund.
23 Nov 22	Macquaire Goodman	Industrial		Australia	9.8	Drawdown tranche 2 into the Macquaire Goodman specialist Australia industrial fund.
03 Jan 23	Clarion Lion Industrial Trust	Industrial		US	61.8	2nd Drawdown into the Clarion LIT specialist US industrial fund.
				Total Acquisitions	340.0	

Disposals

Date	Asset	Sector	Town	Country	Sale price, £m	Comment
20 Apr 22	76 High St & 1/5 New London Rd	Standard Retail	Chelmsford	UK	4.3	Sale of non core high street retail asset
26 Apr 22	1&2 Forbury Place, Forbury Road	Office	Reading	UK	99.0	Part sale of South East Office
29 Apr 22	Spectrol Unit	Other	Swindon	UK	4.2	Sale of vacant stand alone industrial asset
01 Jun 22	St Edward Homes Partnership	Residential		UK	74.9	Part sale indirect reducing level of cash
11 Jul 22	4 South Street	Standard Retail	Chichester	UK	1.0	Sale of non core high street retail asset.
15 Jul 22	11/12 Cornmarket Street	Standard Retail	Oxford	UK	3.3	Sale of non core high street retail asset.
19 Jul 22	3/25 Wimbledon Bridge	Standard Retail	Wimbledon	UK	5.5	Sale of non core high street retail parade.
02 Sep 22	59a Clarence Street	Standard Retail	Kingston Upon Thames	UK	1.6	Sale of non core high street retail asset.
26 Jan 23	Byron House, London	Office	London	UK	45.4	Sale of multi let under performing office
09 Feb 23	Site 2 Cribbs Causeway	Retail Warehouse	Bristol	UK	1.0	Sale of small development site
31 Mar 23	Warrington 389, Warrington	Industrial	Warrington	UK	22.1	Sale of secondary distribution warehouse
Total Disposals				262.3		

Strategic Asset Allocation (total fund level) for PruFund Cautious

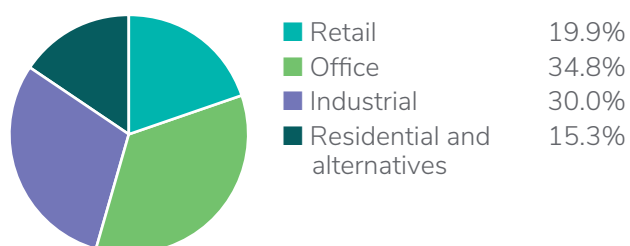
The following data is in relation to the Prudential Real Estate Limited Partnership (PRELP) which is how PruFund Cautious gains exposure to the UK Property market. PruFund Cautious gains its European property exposure via the M&G European Property Fund (MEP), Asian property exposure via the M&G Asian Property Fund and has some direct property exposure to the North American property market. However the below provides insight into the PRELP collective investment vehicle.

Asset	Fund Name	Investment Style	Internally or Externally managed
UK Property	Prudential Real Estate Limited Partnership (PRELP)	Active	Internal
Europe Property	M&G European Property Fund (Core-Balanced Collective)	Active	Internal
North America Property	Morgan Stanley Prime (Core-Balanced Collective) Directly held Assets	Active	External Internal
Asia Property	M&G Asia Property Fund (Core-Balanced Collective) Sector Specialist Collectives within Prudential Australian Property Trust	Active	Internal

(source T&IO and Pru Actuarial team as at 30.06.2023)

PruFund Cautious summary

Sector weights (PRELP)



Fund Activity (commentary from M&G Real Estate as at 31.03.2023)

In terms of rent collection figures for 2022 Q4 stand at 99% and Q1 2023 has also attained 99%, 6 weeks after the quarter day. Work continues to secure payments of outstanding rental and service charge liabilities notably in the retail sector.

UK Key Statistics

	March 2023	December 2023
Net Asset Value	£970.3m	£972.7m
Number of assets	44	44
Average lot size	£21.2m	£21.5m
Value of largest holding	8.7% (Tottenham Ct Rd)	8.1% (Tottenham Ct Rd)
Value of largest tenant (% of rent roll)	6.7% (Sainsburys)	6.8% (Sainsburys)
Number of developments	2	2
Development exposure	11.7%	10.9%
Net Initial Yield	4.1%	4.1%
Net Equivalent Yield	5.7%	5.7%
Vacancy of ERV	6.3%	11.6%
WAULT (inc. breaks), years	11.6%	11.9%

(Source – M&G Real Estate as at 31.03.2023)

Investment transactions, last 12 months

Acquisitions

Date	Asset	Sector	Town	Purchase price, £m	Comment
15 July 22	The Garage	Residential	Egham	37.75	Increasing allocation to Residential Sector
Total Acquisitions				37.75	

Want to know a bit more about the M&G Real Estate team?

M&G Real Estate is recognised as one of the world's leading property investors. They invest across all sectors with a portfolio that spans 29 countries. They are the specialist property manager for M&G and are responsible for managing the property investments within PruFunds.

Globally, M&G Real Estate manage more than £32.8 billion assets* on behalf of clients, providing a range of funds and bespoke solutions for PruFunds, including segregated mandates and pooled investment funds.

* as of 30.06.2023, source M&G Real Estate.

Environmental, Social and Governance

M&G Real Estate are a responsible investor, whose goal is to deliver better outcomes for their investors and society. By driving environmental improvements and increasing the operational efficiency of their buildings, M&G Real Estate are committed to achieving net zero carbon emissions across their global real estate portfolio by 2050. Over 30% of their global asset portfolio (by value) has a green building certification, and they continue to drive asset certification to provide independent verification of their assets sustainability credentials.

In regards to PruFunds, M&G Real Estate are aware that caution should be applied towards those assets which fail to meet or keep up with Minimum Energy Efficiency Standards (MEES), which could become 'stranded' – unlettable and unviable for investors. It is clear that ESG remains at the forefront of investors' thinking and the ability to reshape and future-proof portfolios in line with these themes will be an important driver of performance going forward.

A good example of ESG at play within our property portfolio is the development of an office campus for Surbana Jurong, one of Asia's largest urban and infrastructure consulting firms. The campus was designed as a 'holistic green building' ensuring it is environmentally less impactful, highly energy, water and resource efficient and enhances the wellness and productivity of occupants. The project is one of the first to achieve a Platinum (Super Low Energy) rating under Singapore's BCA Green Mark Programme for environmentally sustainable buildings and was funded through the M&G Asian Property Fund that is held within PruFunds.

Summary

Despite recent turbulence in the financial markets, the property outlook is positive as central banks have stabilised the situation and the contagion risk looks managed. **Investors caution led to declines in transaction activity** across the world, particularly in Europe & the Americas.

We continue to see yields adjust as investors go through a period of price discovery, placing downwards pressure on valuations. That said the **UK remains much further ahead** in its price correction and has started to show signs of a moderation in the pace of capital decline as a result.

Asia Pacific continues to see the least impact from the recent occupier and investor caution and will likely maintain its relative outperformance, underpinned by relatively lower inflation and a stronger economic outlook.

There are increasing signs that **occupiers are becoming more cautious** about taking space, particularly in the office sector, although well-located core stock with strong ESG credentials **continues to attract demand** and should prove more resilient in the face of economic headwinds.

We have written previously about the challenges that prevail for property at the moment but again it is important to remember that much of **the portfolio is of a very high quality, diversified and long-term investments** that we feel will generate good returns over a multi-year period.

As active managers M&G Real Estate continue to invest in, and **complete new projects**. A recent example being a **residential development at Castle Park View in Bristol**. This project, which sits in the M&G UK Residential Property Fund, was completed in collaboration with Bouygues UK and Linkcity UK. **It comprises 375 new low carbon apartments** and has been awarded Level 4 as part of the Code for Sustainable Homes. This is **a great example of businesses collaborating** to not only meet the need for housing but also in an environmentally friendly way.

The information in this document has been provided by M&G Real Estate Limited, a part of the M&G plc group.

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There is no guarantee that these investment strategies will work under all market conditions or are suitable for all investors and you should ensure you understand the risk profile of the products or services you plan to purchase.

M&G plc does not offer investment advice or make recommendations regarding investments. Opinions are subject to change without notice.

The value of investments and any income from them may go down as well as up and are not guaranteed. Investors may get back less than the original amount invested and past performance information is not a guide to future performance.

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