Fund Factsheet: Q3 2020

A Fund managed by Mayfair Capital

The Property Income Trust for Charities (PITCH) helps over 1,350 charities to invest in property in an ethical, responsible and tax-efficient way.

Fund Update

There was increased market activity during Q3 across all property sectors, which enabled valuers to remove the material uncertainty clause on valuations, which had been in place since March. This cleared the way for some funds to re-open although a number remained suspended particularly those with a high exposure to retail or with insufficient cash holdings.

Given PITCH’s prudent approach to liquidity management, we were pleased to be able to not only re-open for dealing in September but also to repay some redemptions for Q1, Q2 and Q3. These totaled some £15m (2.6% of NAV) with £19m of notices having been withdrawn. The cash position now stands at £190m. We intend to maintain a cash buffer of c.5%-10% of NAV for the foreseeable future whilst keeping this under review.

The continued focus for PITCH this quarter has been on rent collection and maximising income distributions to investors. Given the Fund’s high weighting to the industrial and office sector and the covenant strength of its tenants, PITCH was able to collect 86% of rents in Q3 which was broadly in line with Q2. Most arrears were in the form of deferrals due for collection from Q4 onwards and into 2021, continuing our firm but fair approach with our tenants. Once outstanding arrears are collected, we expect the final rent collection level for both Q2 and Q3 to reach c.95%.

The strength of this rent collection meant that monthly distributions for the same period were running at only c.25% below pre-Covid levels. We maintain our forecast of being able to deliver a final distribution yield for 2020 of 4.5%. For charity investors this is attractive in the context of an increasingly low yielding investment landscape.

PITCH returned -0.7% in Q3 with capital value declines moderating in response to improving market conditions. The 12-month total return for the Fund now stands at -2.3%, compared to -2.8% for the MSCI/AREF UK All Balanced Property Fund Index.

Acquisitions & Disposals

The Fund is under offer to acquire a new, well specified warehouse asset in the West Midlands for c.£10.5m. The asset is let to a good tenant and provides an unexpired lease term of just under ten years with the benefit of a fixed rental uplift in the fifth year. This provides an attractive yield to the Fund of c.5.5%.

Given the Fund’s cash position and pipeline of sales we are considering several new acquisition opportunities in accordance with our thematic investment approach with a particular focus on alternatives, logistics and the life sciences sector.

There was one completed sale during Q3 which was a small warehouse asset in Cardiff that sold for £3.2m, achieving some 7% above valuation. Further sales are being considered where we have recently completed asset management initiatives and the asset is now too small, or if it is no longer aligned with our thematic investment strategy.

Asset Management

We have been encouraged by the number of tenants committing to longer leases or letting up our vacant properties. We continue our programme of refurbishing assets to improve them from both a marketing and environmental efficiency perspective.

New lettings have been agreed for a vacant warehouse in Newmarket and a unit on the multi let industrial estate in Yeovil. Meanwhile an existing tenant at the industrial asset in Hook has signed up to a new 10 year lease, which was agreed alongside a 9% rental increase.

The portfolio void rate increased to 8.9% over the quarter due to two new vacancies at the Fund’s office asset at Woodbridge Road, Guildford and on the retail park in Wrexham. Allowing for properties currently under refurbishment, recently refurbished or under offer to let, the vacancy rate reduces to 6.0%, which remains well below the market average. We continue to prioritise initiatives to reduce the void rate further and maximise income returns to investors.

Fund Outlook & Strategy

Given the ongoing threat caused by Covid-19, we maintain our focus on maximising income returns to investors both from rent collection but also from asset management. We continue to monitor the cash position from a liquidity standpoint given elevated levels of risk at present and, therefore, new acquisitions will be balanced with further sales that are no longer consistent with our strategy. Given the structure of the PITCH portfolio and strength of its underlying tenants, the Fund is set to deliver an attractive and resilient income return in 2020. We hope to be able to grow income in 2021 as we collect deferred rental payments and deliver on many of the key ongoing asset management initiatives across the portfolio.

Fund Management Team

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Key Statistics

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<th>£653m</th>
<th>4.8%</th>
<th>11.6%</th>
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<tbody>
<tr>
<td>Gross Asset Value</td>
<td>Fund Yield (Rolling 12-months as % of NAV)</td>
<td>Borrowings (GAV)</td>
<td>Vacancy Rate</td>
<td>Weighted Unexpired Term (years)</td>
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<table>
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<tr>
<th>1 Year Return</th>
<th>3 Year Return*</th>
<th>5 Year Return*</th>
<th>10 Year Return*</th>
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<tr>
<td>5.6%</td>
<td>6.5%</td>
<td>5.7%</td>
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<tr>
<td>5.7%</td>
<td>6.0%</td>
<td>7.6%</td>
<td>6.0%</td>
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<td>7.3%</td>
<td>7.5%</td>
<td>7.5%</td>
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Source: MSCI and CPI index (30.09.2020)
*annualised
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Authorised and Regulated by the Financial Conduct Authority  Member of Swiss Life Asset Managers

Gross asset value £652.53m
Net asset value £577.18m
Number of assets 52
Vacancy rate 8.9%
Weighted Av. Unexpired Lease Term 6.5 years

Distribution History
Jul 2020 0.260 p.p.u.
Aug 2020 0.279 p.p.u.
Sep 2020 0.281 p.p.u.

Borrowings (GAV) 11.6%
Total expense ratio (GAV) 0.65%
Portfolio turnover ratio -4.8%
Year End 31 December
Sedol number B0517P1
ISIN number GB00B0517P11

Five Largest Tenants (by income)
Admiral PLC 4.8%
Wincanton Holdings Ltd 4.4%
Kier Construction Ltd 4.4%
Sky CP Ltd 3.7%
Antolin Interiors Ltd 3.2%

Five Largest Assets (by value)
Unite Student Accommodation Fund 5.2%
Capital Quarter, Cardiff 5.1%
Doncaster, Trax Park 4.0%
Croydon, Premier Inn 3.9%
Newmarket 3.9%

Lease Length (by rent)
0-5 years 45.0%
5-10 years 39.3%
10-15 years 8.1%
15-20 years 7.6%
20+ years 0.0%

Portfolio Distribution (by sector)
Industrial 38.6%
Office 35.4%
Retail Warehouse 9.8%
Retail 4.0%
Other 12.2%

Tenant Risk Rating (by rent)
Minimal risk 41.3%
Lower than average 42.5%
Higher than average 11.7%
High risk 4.5%

8 Newmarket Business Park

The Fund has secured a new letting of 20,000 sq ft to the food manufacturer, Mr Fothergills Seeds, on a new six year lease for a rent of £175,000 pa, which is c.4% above the market rent. This helps to reduce the current vacancy rate but also enhances the unexpired lease term across the estate and portfolio. The asset remains a core industrial holding for the Fund, which has seen strong rental growth during the period of ownership due to strong local demand and dwindling supply of quality warehousing.

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