

## **SHINING A LIGHT ON..... M&G PROPERTY FUND**

### **At a glance**

An alternative or complement to fixed interest is property investment. The challenge is the reputation following 2008 when many property funds delayed payments to investors wanting to withdraw money. For many this makes them nervous of investing in pure bricks and mortar property funds.

M&G were one of the managers who were forced to lock investors' money into its fund for 90 days whilst it carried out an emergency sale of property.

Performance over the last five years has been good vs the sector and the iShares Developed Markets Property ETF. In this update we talked to the manager about her view of the market, where they are finding value and what will drive returns going forward.

### **Who are the team behind the fund?**

The fund is managed by Fiona Rowley, she joined M&G in 1994 and was appointed deputy of the manager when it was launched in 2005. In 2007 she was appointed manager of the fund. She is supported by Justin Upton who is the Deputy Manager on the fund.

### **Fund highlights?**

Fiona started by explaining that over the last couple of years returns have been driven by yield and capital growth. There are good reasons for capital growth due to positive fundamentals.

There is strong demand for properties, and there has been a lack of development meaning supply is limited. Improved lending has meant more new entrants coming into the market and more people are chasing properties, but she feels that capital growth will slow in the coming years. London she feels is already feeling the squeeze with too much speculative money driving down yields.

In London 57.8% of all buyers are overseas, with institutional buyers making up nearly 18%. Outside of London overseas drops to 44.4% and most of this is US Private Equity Money and institutional investing is close to 25%.

Although London rental growth is slowing the rest of the UK is buoyant with increases between 3% and 11%. The fund is finding value across distribution warehouses, and retail. It is also finding value in what is classed as other (healthcare, leisure and hotels).

Fiona feels the fund is strongly placed with the average lease term 8.5 years. The current voids are 1.3% but they are developing properties and this pushes this up to 5.7%. These developments are expected to complete in 2016 and they are confident they will be able to find tenants for these properties.

The current yield is 5.10% but Fiona added that she feels the capital growth on properties is slowing and returns in the future will be via yield. This means the higher returns we have seen will be lower in the future.

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In conclusion for investors seeking a bricks and mortar property fund this is one to consider. But if there is a downturn in the market and investors need money to come out of the fund then they need to be aware that in the past M&G have restricted flows out of the fund. It is also worth remembering that returns will be lower in the future but the managers believe these will be positive.

## Fund performance

Performance from 2010 to 30 September 2015:

	2010	2011	2012	2013	2014	2015
<b>M&amp;G Property Fund</b>	6.79%	4.07%	0.89%	6.17%	14.10%	6.45%
<b>iShares Developed Markets Property ETF</b>	21.13%	-4.65%	12.93%	-4.17%	24.81%	-6.19%
<b>IA OE Property</b>	12.63%	-5.26%	12.82%	5.64%	13.08%	1.98%

1, 3, and 5-year performance:

	1 Year	3 Years	5 Years
<b>M&amp;G Property Fund</b>	10.28%	29.14%	36.24%
<b>iShares Developed Markets Property ETF</b>	6.88%	14.95%	28.04%
<b>IA OE Property</b>	8.11%	25.41%	35.76%

*You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well as rise. The total return reflects performance without sales charges or the effects of taxation, but is adjusted to reflect all on-going fund expenses and assumes reinvestment of dividends and capital gains. If adjusted for sales charges and the effects of taxation, the performance quoted would be reduced.*

*The source of information in this note has been provided by M&G and is correct as at October 2015. These are notes from meeting the fund manager or representative and should not be seen as a recommendation to purchase any fund mentioned. Any reference to shares is not a recommendation to buy or sell. Should you wish to make a decision based on these notes we cannot take responsibility for this and you should carry out your own research before making a decision. You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well rise.*