

**SHINING A LIGHT ON THE.....
Time Commercial Freehold Fund**

AT A GLANCE

Investment Objective	
The aim of the Fund is to provide a secure and stable investment return primarily through acquiring commercial freehold ground rents and commercial freehold property which benefit from long leases. The Fund's aim is to provide investors with an income return of 4% per annum and some capital growth in the long term.	

Inception Date	9 th June 2014
Fund Factsheet Link	http://www.morningstar.co.uk/uk/funds/snaps/hot/snapshot.aspx?id=F00000XH6Q

Management	
Manager Name	Start Date
Nigel Ashfield	9 th June 2014

Investment Style Details	
Equity Style	
Market Capitalisation	% of Equity
Giant	-
Large	-
Medium	-
Small	-
Micro	-

Top 10 Holdings			
Total number of holdings	-		
Assets in Top 10 Holdings	66.67%		
Name	Sector	% of Assets	
WM Morrisons, Birtley	-	11.39%	
Travelodge, Kingston	-	9.36%	
Thorne Retail Park, Thorne	-	9.23%	
Premier Inn, Great Yarmouth	-	6.59%	
St Martins Care, Portfolio, North East England	-	6.26%	
Travelodge Hotel, Sheffield	-	5.97%	
Travelodge Hotel, John Lennon Airport, Liverpool	-	5.56%	
David Lloyd Leisure Centre, Peterborough	-	4.73%	
Aldi, Newton-le-Willows	-	4.06%	
HR Owen Car Showroom, Stockport	-	3.52%	

Volatility Measurements	
3-Yr Std Dev (volatility)	0.68%
3-Yr Mean Return (average)	5.01%

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FUND PERFORMANCE

Performance from 9th June 2014 to 31st October 2018:

	2014	2015	2016	2017	2018
Time Commercial Freehold Fund	2.30%	10.13%	5.33%	5.09%	4.19%
iShares Developed Markets Property Yield ETF	15.88%	2.80%	26.51%	1.37%	2.58%

Performance over 12 months, 3 years and since launch:

	1 year	3 years	Since launch
Time Commercial Freehold Fund	4.90%	15.80%	29.95%
iShares Developed Markets Property Yield ETF	5.24%	35.51%	56.71%

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.

UPDATE....

This fund has a specific place in a portfolio and although we have used our standard benchmark the perceived underperformance shouldn't act as a negative for the fund. The chart below shows one major difference:



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This fund is fundamentally about providing smooth returns across most market conditions. The benchmark will provide a lumpier ride, and this may not match an investor's risk and volatility appetite. The second key difference is that the fund targets an income "return" of 4% p.a. There is not a growth target, but the fund will benefit from an uplift in asset values. Equally if asset values fall then the income will provide a cushion to protect against significant falls.

This is a bricks and mortar fund so holding physical assets. One of the concerns is that at times of market stress these types of funds have closed to protect liquidity and existing investors. This happened in 2008 and 2016. The manager explained that suspension isn't a bad thing as it protects investors, but it is how it is managed that is important. Their fund wasn't suspended in 2016, in part due to the size of the fund, but also education of investors about the aim of the fund which ensured there was not the same stress as other funds had. The manager added that although it didn't happen in 2016, and although he would hope it wouldn't happen in the future, there is a risk of the fund having a short suspension in times of market stress and investors should be aware of this risk.

The fund itself focuses on properties with long leases, or long-term freehold. In terms of rent reviews, 79% are linked to RPI, 7% to CPI, 10% fixed and 3% to the open market. This approach to investing is niche although they expect it to grow moving forward. Examples we discussed were Morrisons in Birtley. The property is on the high street, and a lot of investment has gone into it. The lease is over 20 years and even if Morrisons didn't renew and the property value dropped to 60% of current market value they could make this work, although they would expect to re-let. Micro factors are crucial in this part of the market.

An example of a type of property they would avoid are those held by the likes of Debenhams where the leases can be 60 years plus, and uncapped RPI. These don't work, and it is about deciding what to avoid as well what to invest in.

Another aspect of the fund is commercial ground rent. Effectively this is long term debt. An example is where the operator has spent £15 million developing a site and they have purchased the asset for £4 million and leased back to the operator for £175,000 p.a. The term is 250 years with RPI increases. If the operator fails, then the bank would take over the operation and look to sell the business to another provider.

Fundamentally this fund is about securing long-term income using long term leases. The average lease is 21 years and the average ground rent 60 years. Having the certainty of rent reviews is also a crucial aspect of this. This makes it very different to other property funds. They also do not look to redevelop properties and avoid empty properties.

The managers also feel that if a downturn comes there are certain areas that get hit harder, for example office, industrial units, retail and these can take time to recover whereas hotels and supermarkets tend to recover more quickly. The latter are areas they like.

In summary, the concern we have with bricks and mortar funds is liquidity. Fundamentally these should be seen as part of a portfolio and a diversified asset. This fund in particular is different to what is currently out in the market and this may appeal to investors. It doesn't take the same risks as larger property funds in terms of shorter leases, redevelopment, uncertainty over rent reviews etc. This fund is not going to shoot the lights out, but it will be steady. We like the management team, we like the niche area it invests in. Investors need to be aware of the potential risks should the fund close for liquidity reasons. They also need to accept that the investment can do down as well as up. Also, this is UK based and investors may want a more globally diversified asset.

The source of information in this note has been provided by Time and is correct as at October 2018. 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. We would also recommend that you receive advice before following up on any decision.