

Property Funds Suspension Update

Portfolios Update

It is likely to come as no surprise that many UK Property investment funds have taken the decision to suspend dealing. We received notification from Kames Capital (income portfolio) and Threadneedle and Legal & General (growth and Balanced Income & Growth portfolios) over the last couple of days that this is the case.

The suspensions will remain in place until further notice.

Whilst this has been experienced on a number of occasions previously, we are writing to discuss why property funds do this and what the impact on portfolios is.

Background

Given the impact of the COVID-19 virus outbreak on global financial markets, the funds' independent valuers, such as Knight Frank LLP and CBRE, introduced a material valuation uncertainty clause to their valuations of underlying properties. Essentially this means they cannot be confident about the valuation of properties in the current climate, and in the interests of investors and also in line with regulatory responsibilities, they have taken the decision to suspend the Funds.

Unlike more readily traded assets such as equities, gilts and corporate bonds, properties are less liquid so this measure is taken to protect existing investors from the fund managers being forced to sell underlying holdings at substantially discounted prices in the event of large scale withdrawals on funds.

In the case of the L&G fund they have a high liquidity level with 24% held in cash. Threadneedle have approximately 12%.

Our view is that this is the correct measure and is taken to protect existing investors from forced sales at depressed asset prices. We will continue to review the position as part of our ongoing portfolio monitoring.

If you would like more information regarding this, please contact Beckford James on 01225 437 600 or your adviser directly.