VT Gravis UK Listed Property (PAIF) Fund

COVID-19 Update from the Fund Adviser

The VT Gravis UK Listed Property (PAIF) Fund is the <u>only</u> actively managed open ended fund focused solely on the UK listed property sector that is not suspended.

Overview

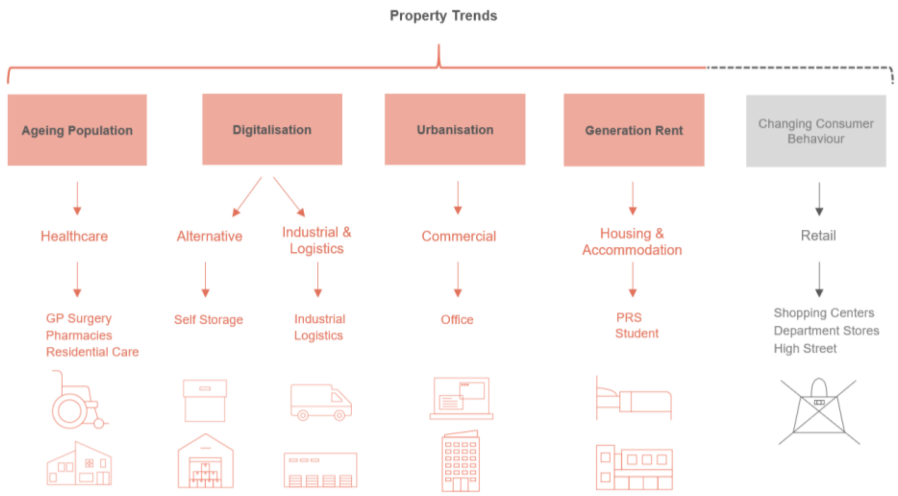
The VT Gravis UK Listed Property (PAIF) Fund (the "Fund") is a Non UCITs Retail Scheme (NURS) Open Ended Investment Company (OEIC) with Property Alternative Investment Fund (PAIF) status. The Fund invests primarily in UK Real Estate Investment Trusts (REITs) and is advised by Gravis Advisory Limited which also advises the VT Gravis UK Infrastructure Income Fund and the VT Gravis Clean Energy Income Fund.

Fund Objectives

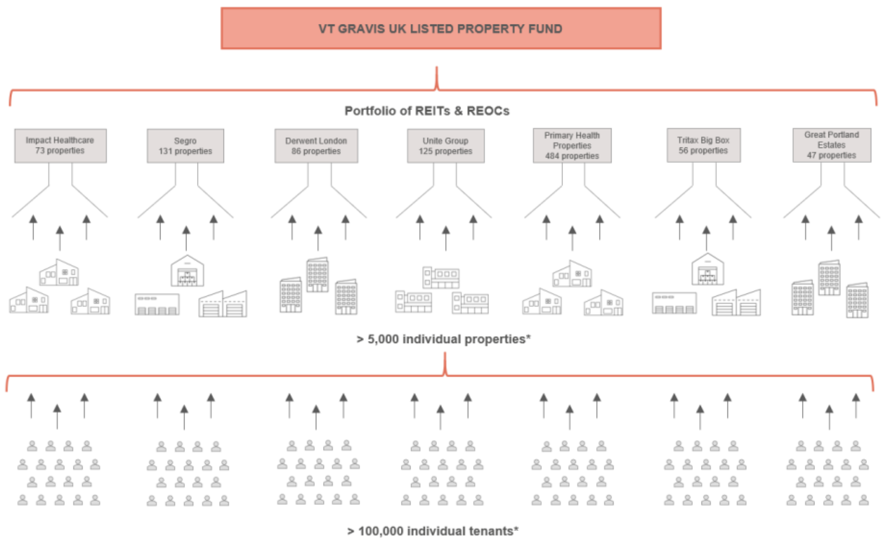
- To achieve capital growth through market cycles*
- To invest in a diversified portfolio of London Stock Exchange listed securities, consisting primarily of REITs and potentially some bonds and closed ended funds
- To maintain liquidity throughout all market cycles
- Avoid exposure to retail property companies
- Aims to deliver a regular income expected to be 4% per annum after charges.

*We expect this to be a period of 7 years

The strategy of the Fund is to invest in a diversified portfolio of real estate companies that are likely to benefit from four strong socioeconomic mega trends: ageing population, digitalisation, generation rent and urbanisation whilst minimising portfolio exposure to the challenging consumer trends currently affecting retail real estate.



The VT Gravis UK Listed Property Fund (GULP) portfolio is well diversified across 22 real estate companies, owning more than 5,000 properties, leased to more than 100,000 firms and individuals.



* GAL and company data

The REIT Landscape – GFC vs COVID-19

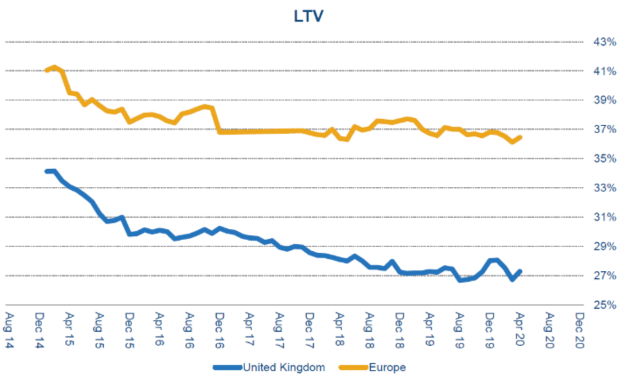
The REIT market today is larger, more liquid and less leveraged than going into the GFC. Additionally, REITs currently have less exposure to development risk.

	Great Financial Crisis	COVID-19
UK property companies	60+	80+
Liquid property companies	23	45
Loan-to-value	40% 2007 65% 2008	28% 2020

Source: Bloomberg, European Public Real Estate Association (EPRA) and GAL.GFC data as at 31.12.07, 30.06.08 and 31.12.2008.COVID-19 data as at 31.12.08

Average leverage for UK REITs has declined significantly over the last decade and asset quality has generally improved. As a result, most REITs, barring those in the retail sector, are in a strong position in the current challenging environment. Retail REITs are caught in an involuntary gearing cycle in which rapidly falling asset values are driving LTVs higher. Due to the severe revenue disruption facing retail tenants, retail REITs, with high leverage coming into the crisis, will be challenged to manage their balance sheets over the next 12–18 months.

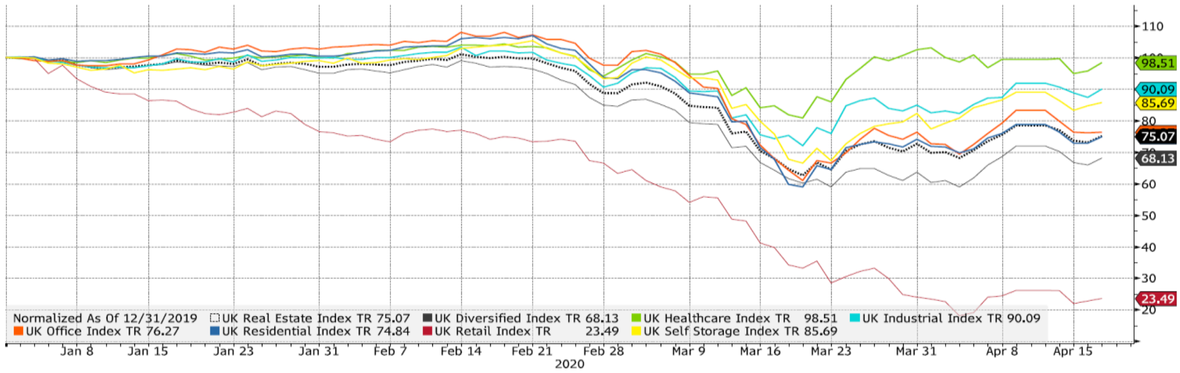
Leverage and interest cover for most REITs is manageable and most have access to financing at very low rates.



Source: EPRA LTV Monitor, October 2010 and April 2020

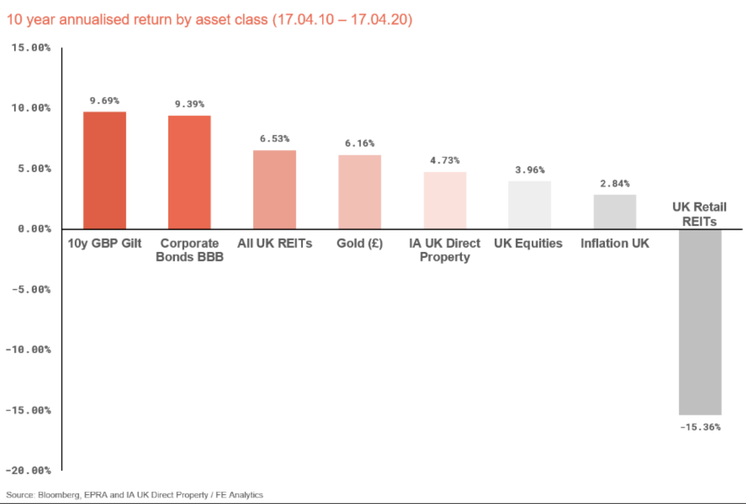
Portfolio positioning – mega trends rebounding post March market lows

The REITs exposed to the trends of ageing population, digitalisation, generation rent and urbanisation are rebounding following the March market lows. COVID-19 has accelerated the shift to e-commerce and highlighted the critical importance of healthcare assets. Healthcare and logistics REITs have outperformed whilst retail REITs continue to suffer.

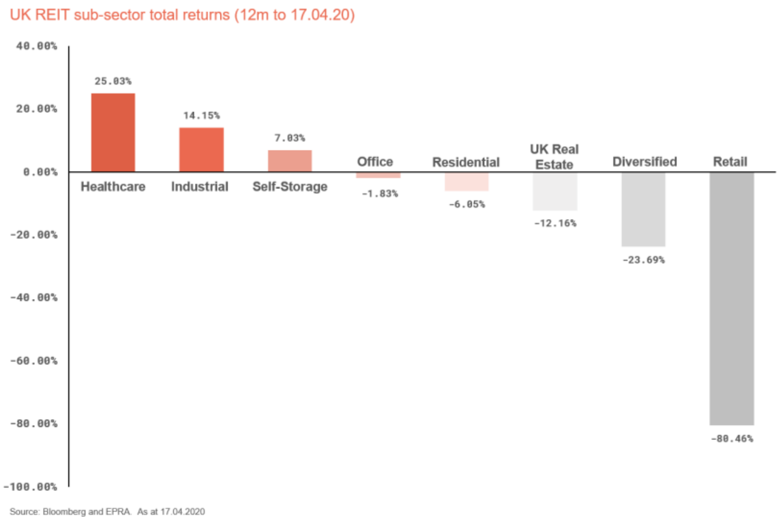


Source: Bloomberg and EPRA.As at 17.04.2020

The long-term view remains positive



Generally, the long-term view for REITs remains positive, outperforming equities over the past 10 years. In recent years, REITs have become increasingly specialist and those with assets in healthcare, logistics, industrial, and self-storage have been the best performers over the past 12 months, delivering positive returns whilst retail REITs and the large diversified REITs have been poor performers, losing more than -20%. COVID-19 is accelerating these trends in relative performance.



The ability for REITs to continue to collect rent during the COVID-19 pandemic is influenced by a variety of factors including whether or not a property is able to open, its business critical nature and the degree to which it is affected by social distancing measures.

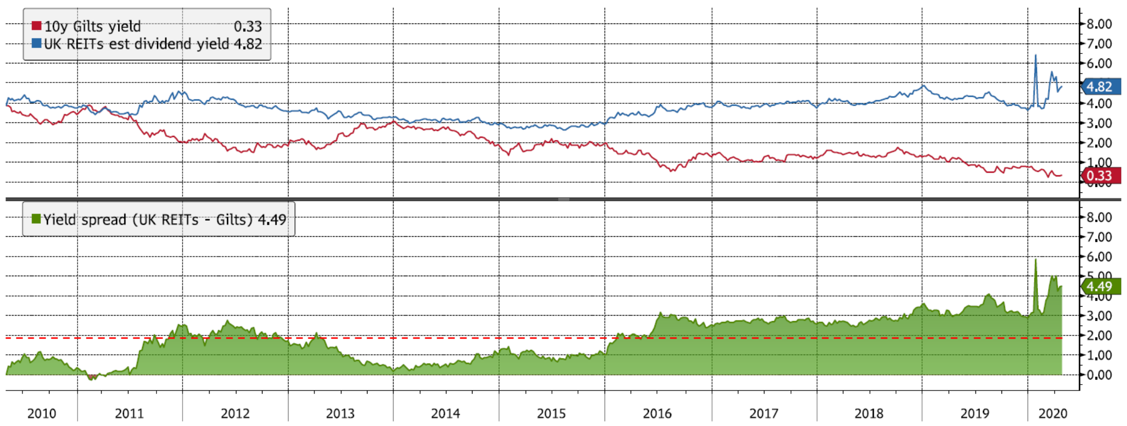
These factors impact different sub-sectors of the REIT market in different ways:

	Property sub-sector	Ability to collect rents	Impact on near-term dividends	GULP exposure*
Property remains open	Healthcare Residential Self storage	High	Low	39%
Business critical property	Logistics	Medium to high	Low to medium	30%
Social distancing reduces functionality	Offices Student accommodation	Low to medium	Medium to high	24%
Property currently closed	Hotels & Leisure	Low to medium	Medium to high	3%
	Shopping centres	Low	High	0%

*Plus 4% cash

Yield spread

The risk-off trading environment has driven the yield spread between UK REITs and Gilts to amongst its widest level in over a decade (shaded green area). At 4.8% the dividend yield premium of REITs over gilts is significantly higher than the post-Brexit referendum average of 3.3%.



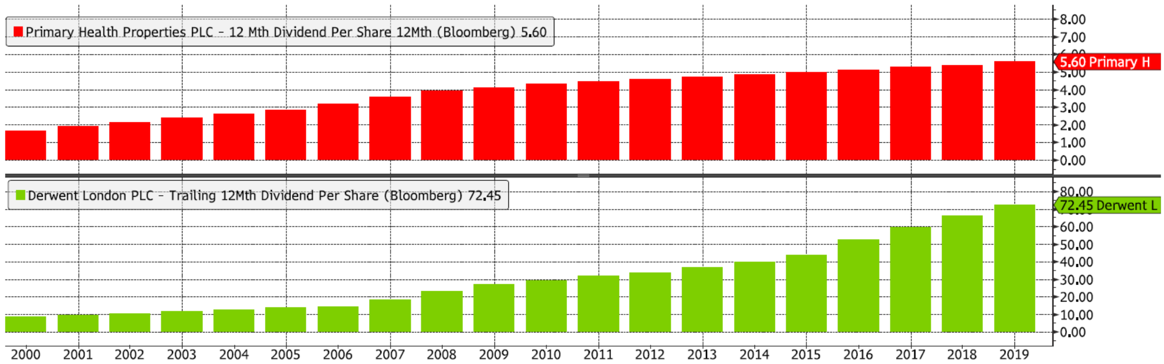
Source: Bloomberg and EPRA.As at 22.04.2020

Dividend reliability

The spill-over effects from the COVID-19 virus are likely to weigh on several areas of the economy and investor concern over the sustainability of dividends and several cases of dividend reduction, has helped push yield spreads wider.

However, history suggests that some REITs will navigate this storm smoothly and, unlike fixed income investments, may well increase their dividends too. Primary Health Properties PLC (PHP) has reported a staggering 23 consecutive years of dividend per share growth. Over the past two decades, irrespective of stock market declines, PHP has continually increased its dividend. While the causes of stock market stumbles change, the mega trend of an ageing population increasing the demand for healthcare is set to continue.

Similarly, Derwent London plc, the design-focused landlord and developer, has increased its ordinary dividend per share (DPS) every year for two decades. Not only has it continually increased its DPS it has also, more recently, paid some special dividends too.



Source: Bloomberg. As at 17.04.2020

Key opportunities within the REIT sector

- **Income predictability** – investors are likely to increase their focus on the certainty of rental income and the ability of the tenant to pay the rent.
- **Multi-speed recovery** - some sectors will emerge faster than others. Essential and outdoor work such as construction may come first, bars and restaurants last. Those returning to the workplace will find a changed environment: staff working shifts or in rotating week-in, week-at-home teams to allow adequate distancing. Staggered start and finish times will attempt to lessen rush-hour crushes on trains.
- **Acceleration in mega trends** – COVID-19 is likely to accelerate existing mega trends. E-commerce will continue to boom; shopping centres will collapse. The economic downturn will have negative consequences for house prices and nudge more people towards the Private Rented Sector. Students will return to the UK due to the high quality of education on offer.
- **Increase in healthcare spending** – COVID-19 has exposed many shortcomings in the NHS. The UK Government is highly likely to invest more money. Beneficiaries will include primary healthcare facilities.
- **Focus on liquidity** – another round of gating/suspension of the open ended property funds together with their exposure to generally lower quality assets and to retail may accelerate the demise of these funds. REITs are well positioned as an attractive alternative way to invest in property.

Fund positioning in the current environment?

- With REITs trading at meaningful discounts to their intrinsic values the Fund Adviser anticipates potential opportunities emerging for long-term investors to take advantage of market dislocations. GULP has been investing throughout March; selectively buying the strong real estate at low prices, REITs that we believe have been overly punished and offer significant upside potential in a recovery.
- There have been no sales, the Gravis principle of investment is for the long term and not to trade stock for short term.

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