As expected, with the Covid-19 pandemic continuing, the second quarter of 2020 saw a further deterioration in European real estate performance. Annual levered fund-level total returns for the MSCI Pan-European Quarterly Property Fund Index (PEPFI) dropped to an almost seven-year low of 4.3%, down from 6.7% in the first quarter. The Balanced Funds subset also saw a notable drop, with year-on-year returns of 2.6%.

Quarterly all property asset-level returns fell into negative territory for the first time since the Global Financial Crisis (GFC). Income returns continued to tick downwards, reaching 4.2% on an annual basis, but the majority of the decline in performance was attributed to falling capital values.

Not all sectors are being affected equally, with retail and hotel the most adversely affected to date. While still a small part of the index, hotel values remained stable in the second quarter, following a sharp drop three months earlier. Meanwhile, retail values were down by a total of 7.4% in the first six months of the year. Conversely, residential properties continued to appreciate in the second quarter, albeit marginally. In a wider context, quarterly total returns turned positive for both equities and bonds, although European real estate continued to outperform in annual terms.

**EUROPEAN PRIVATE REAL ESTATE TOTAL RETURNS (% Y-o-Y)**

<table>
<thead>
<tr>
<th></th>
<th>Quarterly</th>
<th>Annual</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2020 Q2</td>
<td>2020 Q1</td>
</tr>
<tr>
<td>Private Real Estate - Fund Level</td>
<td>-0.9%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Private Real Estate - Asset Level</td>
<td>-0.4%</td>
<td>0.2%</td>
</tr>
<tr>
<td>Equities</td>
<td>14.0%</td>
<td>-23.7%</td>
</tr>
<tr>
<td>Bonds</td>
<td>2.3%</td>
<td>-0.9%</td>
</tr>
<tr>
<td>Listed Real Estate</td>
<td>6.6%</td>
<td>-25.8%</td>
</tr>
<tr>
<td>Euro Area 10-Year Govt. Bond</td>
<td>0.2%</td>
<td>0.2%</td>
</tr>
<tr>
<td>Euro Area 12-Month LIBOR</td>
<td>-0.2%</td>
<td>-0.2%</td>
</tr>
<tr>
<td>EU CPI</td>
<td>0.7%</td>
<td>-0.3%</td>
</tr>
</tbody>
</table>


1 Figures represent annual yield
MSCI PAN-EUROPEAN QUARTERLY PROPERTY FUND
INDEX PERFORMANCE

— At the asset level, annual European income returns hit yet another record low in the second quarter, moving below 4.2%. However, for the fourth consecutive quarter, income accounted for the larger share of total return.

— Residential was the only one of the four main sectors where values grew in quarterly terms. Retail’s weight within the index continued to fall, sitting at just less than 17%; however, this is still a significant share, meaning the sector’s weak performance remained a drag on overall total returns. Both office and industrial saw a second consecutive quarterly value decline, although the falls were relatively small.

— By country, the United Kingdom saw the largest negative movement in values once again, bringing the year-to-date decline to -11.2%. Over the quarter, values weakened in almost all locations, although Germany was among the better performers, with a fall of only 0.2%.

— In terms of annual performance, the Netherlands remained at the top of the table, with asset-level total returns of 9.3% year-on-year. Germany and Sweden were not far behind, but as the only market to see negative total returns, the United Kingdom was once again bringing up the rear by some distance.

BALANCED FUNDS INDEX ASSET ALLOCATION (% of GAV)

RETURNS BY PROPERTY TYPE AND REGION

<table>
<thead>
<tr>
<th>Type</th>
<th>1 Year Annual Returns</th>
<th>3 years</th>
<th>5 years</th>
<th>10 years</th>
<th>All 2</th>
<th>10 years</th>
<th>All 2</th>
<th>Value (bn)</th>
<th>Number</th>
<th>Gearing (% GAV)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fund-level Returns</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>4.3%</td>
<td>4.4%</td>
<td>0.0%</td>
<td>7.8%</td>
<td>7.2%</td>
<td>6.9%</td>
<td>5.0%</td>
<td>2.8%</td>
<td>5.6%</td>
<td>42.3</td>
</tr>
<tr>
<td>Income</td>
<td>2.6%</td>
<td>2.8%</td>
<td>-0.2%</td>
<td>4.8%</td>
<td>5.4%</td>
<td>4.6%</td>
<td>2.4%</td>
<td>1.8%</td>
<td>5.1%</td>
<td>29.9</td>
</tr>
<tr>
<td>Capital</td>
<td>1.7%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Asset-level Returns</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Type</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Value (bn)</td>
<td>Number</td>
<td>Gearing (% GAV)</td>
</tr>
<tr>
<td>Office</td>
<td>6.8%</td>
<td>3.6%</td>
<td>3.1%</td>
<td>7.7%</td>
<td>8.0%</td>
<td>6.9%</td>
<td>6.1%</td>
<td>2.0%</td>
<td>2.8%</td>
<td>14.4</td>
</tr>
<tr>
<td>Retail</td>
<td>-4.6%</td>
<td>4.0%</td>
<td>-8.3%</td>
<td>0.9%</td>
<td>2.9%</td>
<td>4.4%</td>
<td>3.0%</td>
<td>2.4%</td>
<td>3.4%</td>
<td>6.9</td>
</tr>
<tr>
<td>Industrial</td>
<td>8.6%</td>
<td>4.8%</td>
<td>3.6%</td>
<td></td>
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<td></td>
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<td></td>
<td></td>
<td>17.8</td>
</tr>
<tr>
<td>Residential</td>
<td>6.1%</td>
<td>2.5%</td>
<td>3.4%</td>
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<td></td>
<td></td>
<td></td>
<td>1.3</td>
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<tr>
<td>Belgium</td>
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<td>5.3%</td>
<td>-0.6%</td>
<td>5.6%</td>
<td>6.9%</td>
<td>5.2%</td>
<td>4.8%</td>
<td>2.6%</td>
<td>2.9%</td>
<td>60.6</td>
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<td>4.3%</td>
<td>-2.2%</td>
<td>5.4%</td>
<td>5.4%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>6.7</td>
</tr>
<tr>
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<td>0.9%</td>
<td>8.8%</td>
<td>9.7%</td>
<td>8.3%</td>
<td>6.8%</td>
<td>2.2%</td>
<td>3.3%</td>
<td>8.3</td>
</tr>
<tr>
<td>Germany</td>
<td>7.8%</td>
<td>3.8%</td>
<td>3.9%</td>
<td>11.0%</td>
<td>10.5%</td>
<td>9.6%</td>
<td>6.5%</td>
<td>1.8%</td>
<td>3.2%</td>
<td>9.8</td>
</tr>
<tr>
<td>Italy</td>
<td>3.1%</td>
<td>3.7%</td>
<td>-0.6%</td>
<td>6.5%</td>
<td>7.3%</td>
<td>4.8%</td>
<td>3.5%</td>
<td>3.1%</td>
<td>3.9%</td>
<td>2.1</td>
</tr>
<tr>
<td>Netherlands</td>
<td>9.3%</td>
<td>4.2%</td>
<td>4.9%</td>
<td>11.7%</td>
<td>10.6%</td>
<td>7.3%</td>
<td>4.7%</td>
<td>2.4%</td>
<td>3.4%</td>
<td>4.9</td>
</tr>
<tr>
<td>Poland</td>
<td>6.8%</td>
<td>5.4%</td>
<td>1.4%</td>
<td>7.2%</td>
<td>6.4%</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Spain</td>
<td>3.7%</td>
<td>4.5%</td>
<td>-0.8%</td>
<td>6.4%</td>
<td>8.5%</td>
<td>6.3%</td>
<td>4.7%</td>
<td>4.8%</td>
<td>5.4%</td>
<td>2.6</td>
</tr>
<tr>
<td>Sweden</td>
<td>8.4%</td>
<td>3.9%</td>
<td>4.4%</td>
<td>6.3%</td>
<td>7.5%</td>
<td>9.9%</td>
<td>6.9%</td>
<td>4.8%</td>
<td>7.6%</td>
<td>1.9</td>
</tr>
<tr>
<td>UK</td>
<td>-3.9%</td>
<td>4.2%</td>
<td>-7.8%</td>
<td>2.6%</td>
<td>-0.3%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>4.1</td>
</tr>
<tr>
<td><strong>All Property</strong></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>5.2%</td>
<td>4.2%</td>
<td>5.6%</td>
</tr>
</tbody>
</table>

Source: MSCI. As of 30 June 2020.

Notes:
- All Funds index returns start in 2004, equivalent to a 16 year calculation. Returns for Balanced Funds index and asset-level indices may start later than 2004.
# APPENDIX

## PERFORMANCE OVER THE PAST FIVE YEARS (% Y-o-Y)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Private Real Estate - Fund Level</td>
<td>6.3%</td>
<td>6.4%</td>
<td>10.9%</td>
<td>8.2%</td>
<td>4.3%</td>
</tr>
<tr>
<td>Private Real Estate - Asset Level</td>
<td>6.9%</td>
<td>6.7%</td>
<td>11.0%</td>
<td>8.8%</td>
<td>5.2%</td>
</tr>
<tr>
<td>Equities</td>
<td>-9.8%</td>
<td>19.0%</td>
<td>3.9%</td>
<td>4.8%</td>
<td>-4.8%</td>
</tr>
<tr>
<td>Bonds</td>
<td>7.2%</td>
<td>-2.1%</td>
<td>1.5%</td>
<td>5.6%</td>
<td>1.8%</td>
</tr>
<tr>
<td>Listed Real Estate</td>
<td>1.0%</td>
<td>6.1%</td>
<td>9.4%</td>
<td>-1.5%</td>
<td>-6.1%</td>
</tr>
<tr>
<td>Euro Area 10-Year Govt. Bond (^1)</td>
<td>0.8%</td>
<td>1.0%</td>
<td>1.1%</td>
<td>0.4%</td>
<td>0.2%</td>
</tr>
<tr>
<td>Euro Area 12-Month LIBOR (^1)</td>
<td>-0.1%</td>
<td>-0.2%</td>
<td>-0.2%</td>
<td>-0.3%</td>
<td>-0.2%</td>
</tr>
<tr>
<td>EU CPI</td>
<td>-0.2%</td>
<td>1.5%</td>
<td>1.8%</td>
<td>1.6%</td>
<td>0.6%</td>
</tr>
</tbody>
</table>


\(^1\) Figures represent annual yield
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- _Environmental claims arising in respect of real estate acquired with undisclosed or unknown environmental problems or as to which inadequate reserves have been established;_
- _Changes in the relative popularity of property types and locations;_
- _Risks and operating problems arising out of the presence of certain construction materials; and_
- _Currency / exchange rate risks where the investments are denominated in a currency other than the investor’s home currency._

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