QUESTIONS & ANSWERS

CHANGE TO PRICING BASIS OF THREADNEEDLE RETAIL PROPERTY FUNDS

On 13 December 2018 Columbia Threadneedle Investments changed the pricing basis of the dual-priced Threadneedle UK Property Authorised Investment Fund and the Threadneedle UK Property Authorised Investment Trust from being priced on an **offer** basis to being priced on a **bid** basis.

This change applies to the following funds ("the Funds"):

- Threadneedle UK Property Authorised Investment Fund ("Threadneedle PAIF")
- Threadneedle UK Property Authorised Trust ("Threadneedle PAIF Feeder Fund")

Q: What does "offer" and "bid" price basis mean?

The Threadneedle PAIF and the Threadneedle PAIF Feeder Fund operate on the basis of dual pricing, the traditional method used to price direct property funds in the UK. Dual priced funds have two methodologies for calculating the value of a direct property fund's assets; bid basis and offer basis. The valuation of a fund is calculated using both of these methodologies every day, and the pricing of shares must be based on one or the other of these methodologies.

The appropriate methodology to use for pricing shares in a fund is dictated by the direction of net client flows. When a fund is experiencing net inflows (more subscriptions to the fund than redemptions), and therefore acquiring additional properties, the "offer" calculation basis is used. This means the pricing is higher to reflect the additional expenses associated with acquiring property, such as stamp duty land tax (SDLT). Alternatively, when a fund is experiencing a trend of net outflows (more redemptions from the fund than subscriptions), and there may be a requirement to sell assets, the pricing of shares is calculated on a "bid" basis.

The difference between the bid and offer pricing bases can be significant, reflecting the costs associated with buying and selling the underlying properties in the funds. For example, buying commercial property in the UK can typically cost 6.5% of the value of the property (including up to

5% SDLT) and selling property 1.3%. These costs exclude any initial charge, though Columbia Threadneedle Investments currently waives any initial charge payable.

It is industry practice to switch between these two pricing bases based upon the direction of investor flows to ensure an appropriate price is paid by both new and redeeming investors and to ensure that continuing investors are appropriately protected from the underlying costs associated with buying and selling UK commercial property.

Q: Why have we changed the pricing basis of the Funds?

Due to current market uncertainty, the Threadneedle PAIF and Threadneedle PAIF Feeder Fund have recently experienced more money being redeemed than new money being invested (ie, net client outflow) and as a result it may be necessary for the Funds to sell some of the property they hold to increase the level of cash in the Funds. This will allow us to meet the demand of client redemptions.

In order to protect the investors that remain in the Funds, the cost to a client of redeeming their shares is priced to take into account their proportionate share of the subsequent cost of selling any of the Funds' property holdings to meet these demands. The change to bid pricing basis reflects these costs.

Q: Is the change in pricing basis permanent?

Columbia Threadneedle Investments monitors cash flows on a continual basis and will manage the pricing basis as part of the normal business process. Once we experience sustained positive net client flows into the Funds it is expected we will revert to an offer price basis.

Q: What does this mean for my investment?

For continuing investors there will be a negative performance impact on the Funds as a result of a switch from an offer basis to a bid basis of approximately 6.1% as the share price will decrease. When the Funds revert to being priced on an offer basis in the future there should be a corresponding positive performance impact. For investors selling shares, the redemption value will also have decreased.

Q: Does the change in pricing reflect future prospects for the Funds?

A change in pricing is not a reflection of the fund managers' views on the prospects for the asset class or of the level of liquidity in the Funds, but is purely based on the recent and expected trend of net client flows.

For more information visit COLUMBIATHREADNEEDLE.CO.UK