

## INVESTING FUND OF THE WEEK

# 'Unlike many investors, I like to talk about the high street'

Gerry Frewin of Threadneedle's £1.5bn property fund tells Sam Meadows why he thinks it is still worth investing in shops

Investors who favour the seemingly solid grounding of bricks and mortar will often be tempted by funds that directly own commercial property. But since the Brexit referendum, the sector has faced periods of severe instability.

The £1.5bn Threadneedle UK Authorised Property fund, launched in 2007, owns office and retail space around the country. Like most of its rivals it suspended trading in the months after the EU vote and analysts have warned that the sector could be hit by similar disruption after the announcement of a delay to Britain's exit.

Gerry Frewin, the fund's manager, tells *Telegraph Money* why he thinks this won't be a problem for his fund and why he still loves the high street.

### WHO IS THE FUND FOR?

We appeal to those looking for a high, and sustainable, income. That could be the man-on-the-street investor who wants exposure to bricks and mortar - this is a fund that owns physical property rather than property shares.

### WHAT MAKES YOU DIFFERENT?

We are highly focused on tenant retention and sustainable rents. We are highly diverse, with 1,350 tenants

across 200 properties, so we are looking for the right deals in the right town. We own property across the UK in every town or city that we think is worth owning in.

### WHAT MAKES A TOWN OR CITY ATTRACTIVE?

We won't disregard any town on the basis of an initial perception. It's really important to understand supply and demand.

It's not about a weak demographic or a strong demographic, in terms of the affluence or size of a town, it's about having the right retail outlets for that population.

I was recently up in Harrogate, which is a lovely place with a very strong demographic. I didn't see any shops that were boarded up; it's a thriving market town. We know there are tenants that would go into Harrogate; combined with an absence of vacancies there we have the key attributes we would be looking for.

### DO YOU FAVOUR NEW-BUILDS?

If you look at industrial property, we know it is very linked to what's going

on in the high street, but there is an industrial revolution under way in the form of the growth in online shopping. We have seen yields on properties driven below 4pc in some instances and this has been wedded to a belief in unquantifiable rental growth prospects.

But we are always looking at sustainable rents. Some investors are drawn to shiny and new. A new-build in a strong town might mean a record rent, but logistics is a tight-margin business.

We want to meet the widest possible audience if a tenant vacates a building. That doesn't mean buying shiny and new, it means understanding supply, demand and rent.

If you have a shiny new-build with a tenant paying a high rent of £14 per sq ft we would question how many tenants are queuing up to take it.

### JUST 0.3PC OF THE FUND IS IN LONDON PROPERTY. WHY?

It's not that we don't like central London, we do own properties there. We find it difficult to buy in central London at the sort of prices we want to pay. It's very low-yielding and highly reliant on rental growth.

We like to look for those markets that have low supply and strong demand. Good examples for office space at the moment are Bristol and Birmingham. In Bristol an out-of-town office commands £20 per sq ft and it can be £35 in the city centre.

### HAS BREXIT AFFECTED YOU?

We suspended the fund after the referendum and were the first to reopen. We always have assets ready to sell after a shock event, whatever

## CV

GERRY FREWIN  
YEARS MANAGING  
FUND: 4  
ANNUALISED  
RETURN: 3PC

Gerry Frewin has worked on the UK



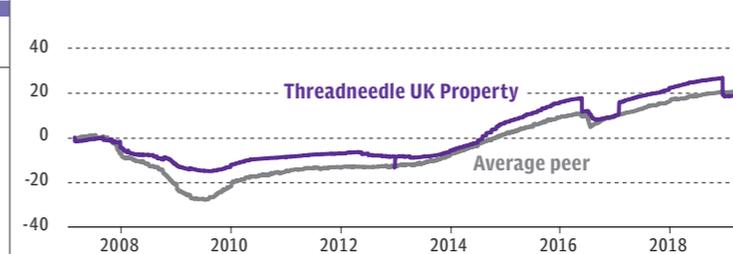
property team at Threadneedle since 2010 and was appointed manager of the fund in 2015.

He has a degree in real estate valuation.

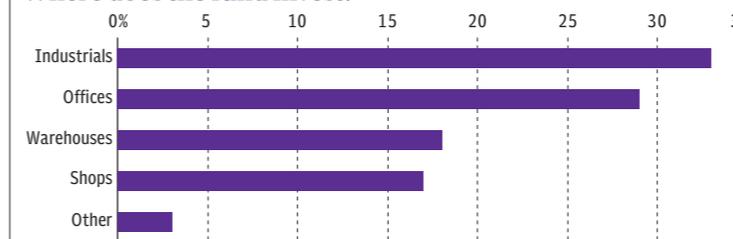
## THREADNEEDLE UK PROPERTY



### Versus average peer



### Where does the fund invest?



SOURCE: FE ANALYTICS/AIC

### Key facts

Launch date	February 2007
Return since manager start (2015)	11.1pc
Total return since launch (2007)	18.9pc
Total return year to date	0.3pc
Annual charge	0.81pc (I share class)

### Top 10 tenants (as of 28/02/2019)

1. Travis Perkins	2.2pc
2. JD Sports Fashion	1.8pc
3=. Halfords	1.7pc
3=. Norton Group	1.7pc
5. Matalan Finance	1.2pc
6=. Co-operative Group	1.1pc
6=. Telford Homes	1.1pc
8=. Wilko Retail	1pc
8=. AS Watson Group	1pc
8=. Lloyds Banking Group	1pc

## IN FOCUS BROAD STREET, READING

When it comes to our strengths I like to talk about high-street retail, which many don't. We have 15 units in Reading that now account for about 20pc of our retail space.



They look out on to a pedestrianised area on Broad Street opposite John Lewis and back on to Friar Street, where there is a rejuvenation project going on.

The space above the shops could also be turned into residential property. High-street retail is almost the new buy-to-let. This type of property does well at

attract the additional stamp duty charge.

We have one vacancy because Next is moving into the Oracle centre, but we have provisional terms agreed to fill that.

that might be, and within six weeks of the vote we agreed to sell 40 properties for around £250m.

That meant we had enough cash to meet our ongoing obligations and to have enough liquidity to quickly reopen for our investors.

Because we had 40 property sales in the market we were able to sell at a

£1,000 invested at launch would be worth £1,189 today

price in excess of the pre-referendum valuation. We weren't heavily negotiated against because we didn't have to sell one over any other.

We are seemingly unaffected by the delay to Brexit. The amount of investors' cash we have attracted over the past 12 months is among the highest of our rivals so the fund has remained popular.

When you are looking for sustainable rents rather than rental growth, you can afford to have tenants roll over on the same rent and you will still have an attractive yield.

### HOW ARE YOU PAID? DO YOU INVEST IN THE FUND?

I do invest in the fund myself and I am incentivised on fund performance.

### WHAT WOULD YOU HAVE BEEN IF YOU WEREN'T A FUND MANAGER?

I do triathlons and I'm competing for Great Britain as an age-grouper in Romania in July. In London it's easy to grab your trainers and go for a run or find a pool nearby. I have two young children, a two and a five-year-old, so I'd love to bring it home for my kids.

So the answer would be a professional triathlete - but I'm still trying to live that dream.