

CHANGES TO PROPERTY PRICING EXPLAINED

APRIL 2019

This overview is designed to explain the pricing structure of the Threadneedle UK Property Authorised Investment Fund and the Threadneedle UK Property Authorised Trust (the 'Funds') from 12 April 2019 when the Funds move to operate on a full spread pricing structure.

Overview

This change to the pricing means that the Funds will continue to operate a dual-priced structure but the structure itself will undergo a process of simplification.

After the above date the Funds will operate on a full spread model and this will remove the bid/offer basis of the Funds' previous pricing structure.

How did the previous structure operate?

Quoted-Spread Model

Previously the Funds operated under a dual priced quoted-spread structure.

When the manager operates a quoted-spread structure, the daily pricing of the fund reflects a much tighter bid/offer pricing spread than the actual cost to the fund of creating or liquidating a share/unit. When operating this tighter spread, the manager evaluates whether the fund is experiencing net inflows or outflows as a result of day-to-day investor transactions and may change the basis as a result.

Bid Basis

Where a fund experiences net outflows over a sustained period of time, the price of selling a share/unit is aligned with the cancellation price. The cancellation price reflects the true value of liquidating a share/unit.

Offer Basis

Where a fund is experiencing net inflows over a sustained period of time, the price of buying a share/unit is aligned to the creation price. The creation price reflects the true cost of creating a share/unit with the fund.

Changing the Basis

The Funds have an overall full spread of approximately 6.7% between the creation and cancellation price. When the Funds experience a sustained change from net inflows to net outflows (or vice versa), the manager is required to amend the pricing basis. Where the Funds experience sustained net inflows, resulting in the pricing basis being changed from bid to offer, the unitary value will increase. Alternatively, when the Funds experience sustained net outflows, resulting in the pricing basis being changed from offer to bid, the unitary value will decrease.

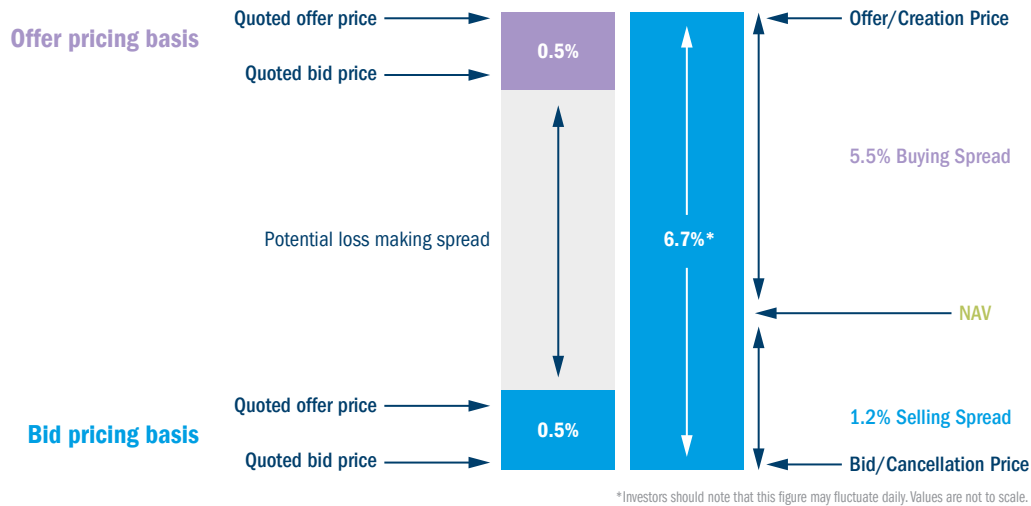
Special Pricing

Whilst over an extended period of time the manager is able to evidence the direction of inward or outward flows, and may change the pricing basis as outlined above, there may also be individual days where the net flow of client orders requires the manager to issue an instruction to the trustee/depository which is against the current basis of the Funds. For example, to either create shares/units on a bid basis or liquidate shares/units on an offer basis.

Due to the tight spread between the bid/offer prices under the quoted-spread model (typically 0.5%) this would lead to a shortfall in settlement between either the monies recovered from the liquidation of shares/units (when the Funds are on an offer basis) or a shortfall in the monetary value paid by the investor when creating shares/units (on a bid basis). Such scenarios may therefore see the manager apply special pricing to a transaction.

When the manager special prices a transaction, the price per share/unit is amended to reflect either the higher creation price (when the Funds are on a bid basis) or the lower cancellation price (when the Funds are on an offer basis). Large transactions (such as a platform aggregating deals) are more likely to trigger this.

Spread Basis – Previous Approach



How will the new structure operate?

Full Spread Model

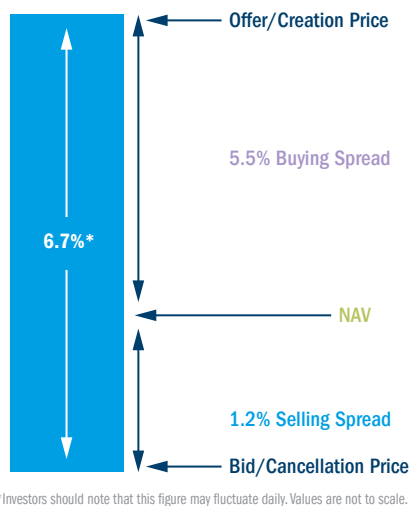
Moving to a full spread model will see the removal of the manager’s requirement to operate on either a bid or offer basis.

This change will simplify the pricing structure for investors, providing greater transparency. We recognise that for some investors, the move to bid in December 2018 negatively impacted their valuations and without the move back to an offer basis, there will not be a revaluation back up, however under the bid/offer pricing approach, there was a strong likelihood that investors may well have received the bid valuation upon selling their units even when the Funds were priced on an offer basis, due to special pricing applied to large or aggregated deals (large deals are currently £15,000 or above as detailed in the prospectus). There is also no assurance that under the bid/offer pricing structure the Funds would have reverted back to a permanent offer basis.

The new approach ensures that investors will be clearer about the price they receive when transacting. Moreover, it means that the cost of transacting is borne fully by the transacting party, therefore further encouraging investors to hold units as a long-term investment.

The new approach is outlined in the diagram below.

Spread Basis – New Approach



What is the cost of buy & selling commercial property

- **Buying** (6.4%); 4.9% Stamp Duty Land Tax, 1.5% Agents/Legals/Surveys/Valuation
- **Selling** (1.3%); Agents/Legals.

Calculating Commercial Property Fund Spreads

Property is an illiquid asset, it has high transactions costs which results in an underlying bid/offer spread of currently around 6.7%. The cost associated with buying and selling properties is typically 7.7%, including the buying and selling costs outlined above. The Funds are currently approximately 87.5% invested in direct property (with cash levels c. 12.5%). The spread is therefore calculated as $(6.4\%+1.3\%)*87.5\% = 6.7\%$.

Property Prices

The table below shows an example of the how the Fund prices will be reflected after 12 April 2019. We will continue to publish four prices on a daily basis, however creation and offer will reflect the same price (cost to create a unit). The cancellation and bid price will also be of an equal value (the cost to liquidate a unit).

UK Property Trust (example)	Full Spread Basis	
Creation & Offer price will now be the same.	576.1	Price paid by investors to Columbia Threadneedle Investments for purchasing shares/units. Price Columbia Threadneedle Investments pay to the Trustee for creating shares/units.
Cancellation & Bid price will now be the same.	538.2	Price paid by the Trustee to Columbia Threadneedle Investments for liquidating shares/units. Price paid by Columbia Threadneedle Investments to investors selling shares/units.

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