Schroders

September Update

Zurich Anlagestiftung Immobilien Europa Direkt (IED)

European real estate exclusively for Swiss pension funds

Highlights

- Economic data for the Eurozone continues to improve and political risks are declining
- IED has benefited from this positive environment - Performance 7.2% p.a. since launch in 2013
- More than 100 Schroders real estate experts are active in the target markets creating added value
- Attractive investment pipeline offers further growth opportunities in the coming months
- IED is fully invested, offering the chance for new capital commitments to be invested swiftly

The investment environment for real estate in Europe is becoming increasingly attractive

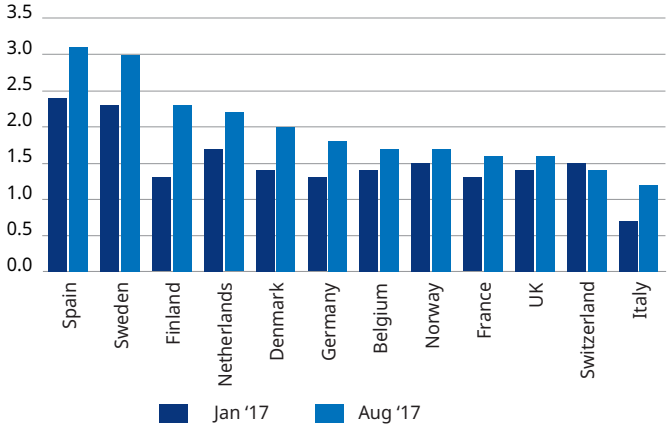
Political uncertainty continues to decline - investor sentiment reaching record levels

At the beginning of the second half of the year, political uncertainty in Europe has declined significantly. While the prospects at the beginning of 2017 were still marked by the potential risks associated with Brexit, Trump as well as the forthcoming elections in the Netherlands and France, there is now a lot more clarity. And even if risks continue to persist at international level; these are becoming less relevant within Europe. Despite the political debate, the recovery and growth of European economies has continued. At the same time both corporate and consumer sentiment now lie above those of 2007. And with forward-looking indicators, such as the Purchasing Managers' Index, also pointing upwards the current momentum should gather pace.

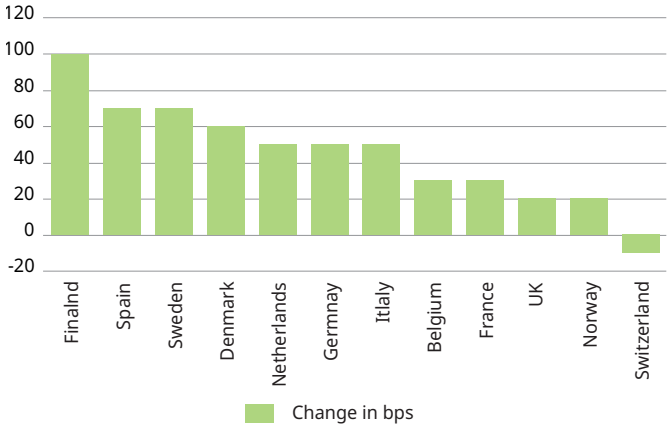
Growth forecasts continue to improve

The economic improvement, along with significant reform efforts have led in many countries to a substantial increase in the prospects for economic growth. The Consensus forecast for Eurozone growth in 2017 and 2018 has increased from 1.4% and 1.5%, at the beginning of the year, to 2.0% and 1.8% in August. This growing momentum has also been reflected in labour market forecasts, where unemployment is now expected to drop from 10.0% (end 2016) to 9.2% by the end of the year.

GDP Growth Forecast (%) for 2017 at January and August 2017



Change in GDP Growth Forecast for 2017 at January and August 2017 in bps

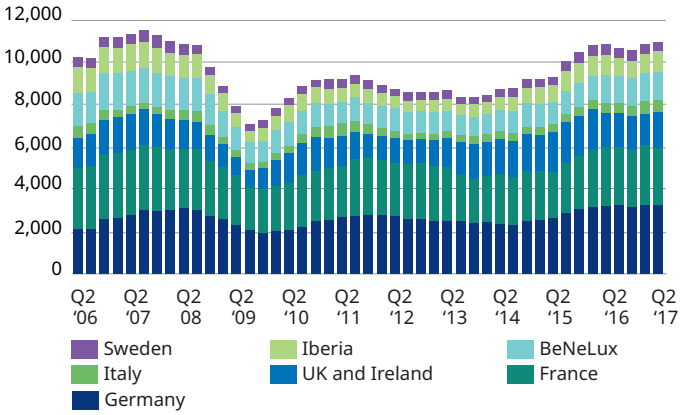


Sources: Consensus, Schroders, August 2017

Office Market: High demand, declining vacancies and continued moderate new supply

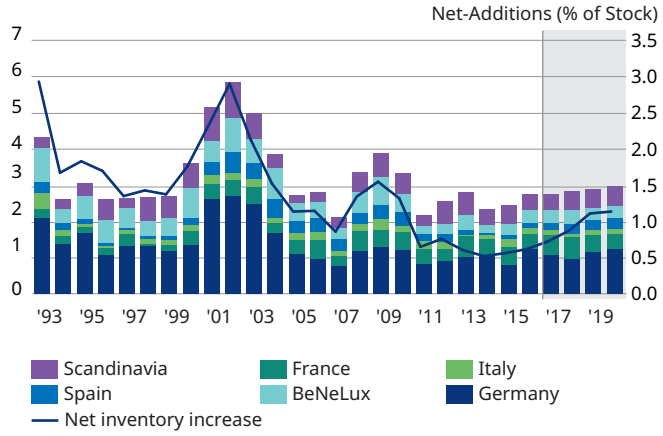
The office letting markets in Europe continue to be characterised by high levels of new lettings and positive net absorption. In many markets sustained demand has led to a dramatic reduction in available supply and declining vacancy rates. The modest construction pipeline and the fact that planned new rental space is often pre-let indicate that this trend is not likely to change in the short term. As a result, in many markets rents for office space outside top locations have also risen. A development, which is expected to continue over the next few years.

Office take-up, rolling 12 month totals, '000 sq m



Source: JLL, Schroders July 2017. Country data is based on the main markets

Office completions, million sq m



Source: PMA, Schroders April 2017. Country data is based on the main markets

Retail and logistics driven by e-commerce

The strong growth of online shopping has led to structural changes in the retail sector. Nevertheless, stores in top locations remain of great importance for retailers. In addition, dominant shopping centres with a good mix of retail, leisure and catering services also continue to be successful. Similarly, specialist outlets offering products, which are difficult to sell online or serve day-to-day requirements, remain of interest.

Significantly, the growth of online trade and the drive for ever shorter delivery times has led to an adjustment in supply chains and networks. In addition to large logistics centers, the demand for smaller logistics properties in the vicinity of conurbations is increasing. This is particularly true for modern facilities, which are capable of accommodating high levels of automation and the use of the latest logistics technology.

Investment markets: Despite low prices, there is little or no sign of an investment bubble

Despite the significant reduction in recent years in the prime yields for all asset classes, real estate investments remain attractive and reasonably priced. This is thanks in particular to the yield gap; for example to government bonds. And should yields – as presumed – bottom-out by the end of the year, the prospect of rising rents will provide attractive overall returns. Whilst the prime yields in the core European markets now lie close to or at 3.0%, properties with higher returns can continue to be found in attractive locations outside the CBD.

Why is Europe interesting?

- Real estate remains highly sought-after by Swiss investors
- Swiss super-cycle, with its rising prices and rents, is slowly drawing to a close
- Investment opportunities in the domestic market are only just managing to keep pace with demand
- Swiss pension funds are increasingly focused on foreign real estate investments
- The real estate cycle in the US is already very advanced, leading to increasing caution by investors
- Since the financial crisis Europe has continued to benefit from very modest levels of real estate development, leading to a lack of supply of new office space
- European office properties in "winning cities" continue to benefit from rising rents and asset values
- Traditionally, European real estate is the first step for Swiss investors abroad

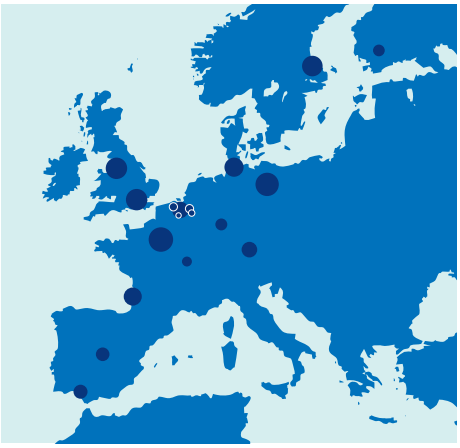
Immobilien Europa Direkt – An established and diversified portfolio

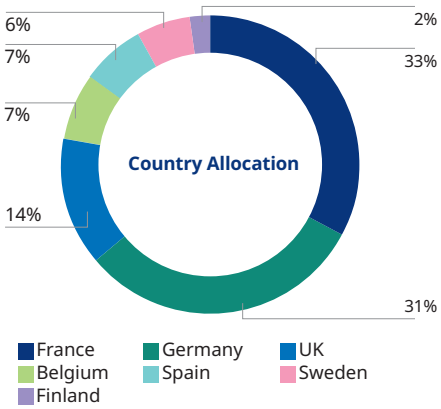
Zurich Immobilien Europa Direkt (IED) was specifically created for tax-exempt occupational pension funds wishing to invest in real estate outside Switzerland. IED was launched in 2013 and has since built up an attractive and diversified portfolio throughout Western Europe. The fund's approximately 30 properties, in many of the continents "Winning Cities", provide investors with access to an attractive portfolio and long-term income security. As a result an investment in IED offers Swiss pension funds an optimal addition to their domestic real estate investments.

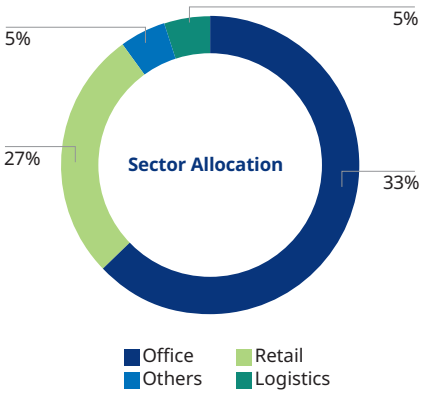
Immobilien Europa Direkt

IED is an investment group of Zurich Investment Foundation, managed by Schroder Real Estate Management and jointly distributed in Switzerland by both Schroders and Zurich. The investment group is an open-ended fund investing in Euro-denominated investments and focuses on directly held, high-quality commercial properties in Europe's most attractive real estate markets.

IED – Diversification and active asset management in "Winning Cities"







Berlin

Berlin (51%)

Paris (50%)

Paris Retail Portfolio

Darmstadt

Hamburg

Bordeaux

Paris (50%)

Berlin

Munich

FRA & BEL Logistics PFs

Brussels

London (25%)

Manchester (25%)

Madrid

Seville (50%)

Helsinki

Stockholm

*IED Share

IED – A strong portfolio with attractive performance

Key Figures as at 30.06.2017	
Portfolio value (Gross Asset Value)	€789 million
Investment capacity	€850 million
Net initial yield	4.4%
Lease term to break	6.1 years
Vacancy	10.9%
Gearing / LTV	24.7%

Portfolio Performance & Costs	
Return on investment Since inception p.a	+7.2%
IRR Since inception since inception p.a.	+7.9%
Total Expense Ratio TER ISA GAV	0.99%

Attractive pipeline and swift investment are clear advantages for IED

Over the last four years Schroders has successfully invested over €800 million in the European real estate market. The resulting portfolio of core properties provides investors with access to strong economic regions and long-term income security. Currently, 22 Swiss pension funds are invested in IED and with no capital commitments outstanding the fund is fully invested. As a result in the coming months both new and existing investors have a unique opportunity to benefit from the swift investment of new capital commitments in the investment group.

Selected Pipeline Opportunities (non-binding)

Office, Hamburg (D)

Office, Cologne (D)

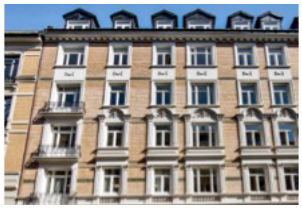
Logistics, Koge (DK)

Investment focus for autumn 2017

- Selective expansion of the current portfolio in Germany, France and U.K.
- Expansion of investments in Benelux as well as the Nordic countries
- Strengthening of the fund's diversification through further investment in retail and logistic properties
- Target investment size: €40 million per asset and upwards
- Target distribution yield: 4.0% - 5.0%

Long-term investment focus

- In the medium to long term, IED will continue to focus on portfolio growth through the addition of further quality assets. This will help the investment group to target a fund size of around €1.5 billion over the next five years.



Office, Oslo (N)

Retail, Helsingborg (SWE)

Office, Amsterdam (NL)

Source: Schroders at at 30 June 2017

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