Q4 report

CBRE GIP UK Osiris Property Fund

2023

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CBRE Global Investment Partners UK Osiris Property Fund ("Osiris" or the "Fund") commenced in October 2003[1].

On 19 March 2020, investor approval was granted to terminate the Fund, as a result, the fund is progressing an orderly wind down. The performance objective and investment restrictions ceased to be applicable; the objective is to maximise the return of capital to investors.

Executive summary

The latest monthly GDP growth figure showed an increase of 0.3% in November, following a 0.3% fall in October. The main take away from the latest release is that the monthly series is very noisy and should be handled with care. The bigger picture is that the economy has flatlined since early-2022. But 2024 should be the year that breaks that pattern, with a sharp fall in inflation set to boost household spending power and generate a steady pickup in momentum.

The latest data from Q3 2023 suggest that despite a slowdown in demand, prime logistics rent increased by 2% over the quarter, and 4% over the past 12 months ago. Take-up remained broadly stable in Q3, with 3.3mn sq ft leased, down from an average of 9.5mn in 2022.

The new forecasting period, Q1 2024-Q4 2028, sees a slightly higher starting point for yields relative to our previous House View, but generally a set of return forecasts that are similar relative to the previous round. Total returns are expected to average 7.9% per annum over the forecast period, marginally down from 8.0% per annum in the previous round. Returns accelerate starting in Q2 2024. We believe that superior capital growth will lead to the logistics and residential sectors outperforming, alongside the healthcare and leisure sectors, which are mainly boosted by the strong income growth.

During the quarter, £707k of capital was returned by Curlew Student Trust and £13.0m of Airport Industrial Property Unit Trust units were sold on the secondary market.

The portfolio produced a total return of -2.6% over the quarter and -3.8% over the past 12 months. Since inception, Osiris has delivered a return of 4.5% p.a.

Due to the Fund termination, a single valuation price is now quoted. Closed-ended funds continue to be valued at their NAV, but open-ended funds are now priced at their Bid price (instead of their Mid price).

Performance

	Q4 2023	1 year	3 year (p.a.)	5 year (p.a.)	Since inception (p.a.)
Portfolio[2]	-2.6%	-3.8%	-1.0%	-1.5%	4.5%
Benchmark[3]	-1.2%	-1.4%	2.1%	1.3%	5.2%

* Following the unitholder vote to wind-down the fund in March 2020, the performance objective is no longer applicable, the benchmark is shown for information purposes only.

[1] Trust Deed executed on 26 September 2003; however, 1 October 2003 reflects the date the Fund's first holdings were transferred in specie.
[2] Returns shown are NAV to NAV gross of Osiris fees. Current quarter's income assumed to be the same as previous; returns cannot be compounded as they are subject to change.
[3] The benchmark is a composite of the MSCI/AREF UK QPFI All Property Fund Index until 30 June 2006; thereafter the MSCI/AREF UK QPFI All Balanced.

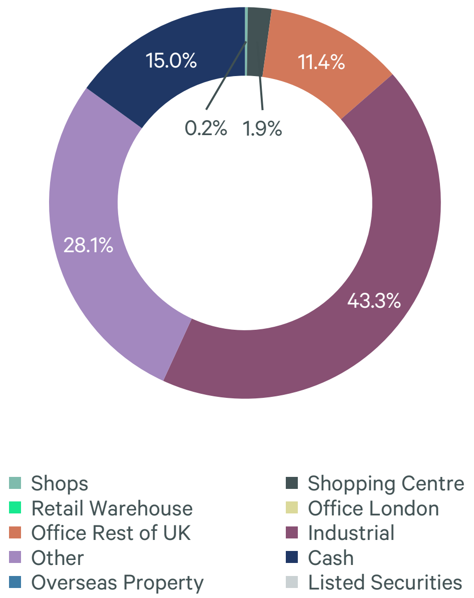
Portfolio information

Key statistics

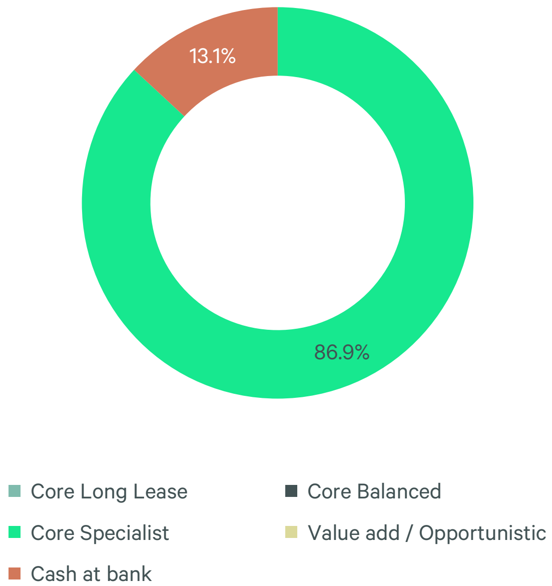
7 Number of investments	**GBP 92.3M** Value of holdings	**GBP 106.2M** Portfolio NAV
GBP 1,132.79 Valuation per Unit	**2.9%** Gross Distribution Yield	**35** No. of Investors
22.3% Leverage (Debt/GAV)	**93,747.44** No. of Units in Issue	**86.9% | 0.0% | 13.1%** Core I Enhanced I Cash

Sector and style exposure

Property sector exposure (based on invested GAV)



Fund style exposure[3] (based on invested NAV)



Largest holdings

Holdings Name	% of portfolio
Industrial Property Investment Fund	35.5%
UNITE UK Student Accommodation Fund	23.9%
Airport Industrial Property Unit Trust	13.6%
Cash at bank	13.1%
Ardstone UK Regional Office Fund	10.4%
TOTAL	**96.5%**

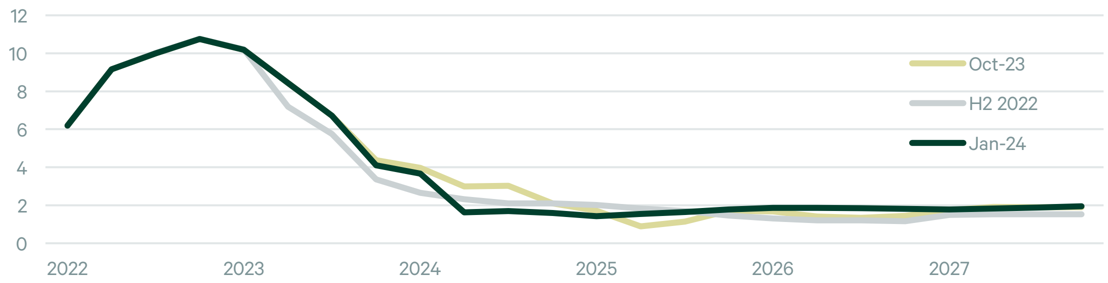
UK market commentary

Economic background

The latest monthly GDP growth figure showed an increase of 0.3% in November, following a 0.3% fall in October. The main take away from the latest release is that the monthly series is very noisy and should be handled with care. The bigger picture is that the economy has flatlined since early-2022. But 2024 should be the year that breaks that pattern, with a sharp fall in inflation set to boost household spending power and generate a steady pickup in momentum.

Inflation rose to 4.0% y/y in December, an increase from 3.9% y/y in November. This was the first increase for 10 months, however in line with both the Eurozone and the US. This could put some increased uncertainty on the timing of interest rate cuts curve, but given the trend of steadily falling inflation we believe the MPC will eventually rein back its "higher for longer" rhetoric. Our draft Q1 2024 macro house view has an expectation that inflation returns to the BoE's target rate of 2% during the year ahead. However, nervousness about the implications of the new year pay round and the sizeable rise in the national living wage in April probably precludes policymakers from loosening policy during the first half of the year at least. That said, our draft scenario envisages the MPC beginning to cut interest rates before summer is out, and that they will decline gradually before stabilizing at a 2% level by Q2 2027. However, an earlier and more aggressive fall in rates than previously predicted is unlikely to be a game changer for growth in 2024. Even factoring in BoE rate cuts, the average rate on mortgages is still set to continue rising, as borrowers on fixed-term loans refinance at what will still be much higher rates than their expiring deals. Still, lower rates could deliver some early indirect support to the economy via their fiscal impact, and our U.K. GDP growth expectations has improved since the end of last year (mostly in 2023 and 2024), with our five-year view at 1.4% p.a. over our forecast period.

UK CPI Forecasts, y/y %



Sources: Oxford Economics, CBRE IM.

Occupier markets

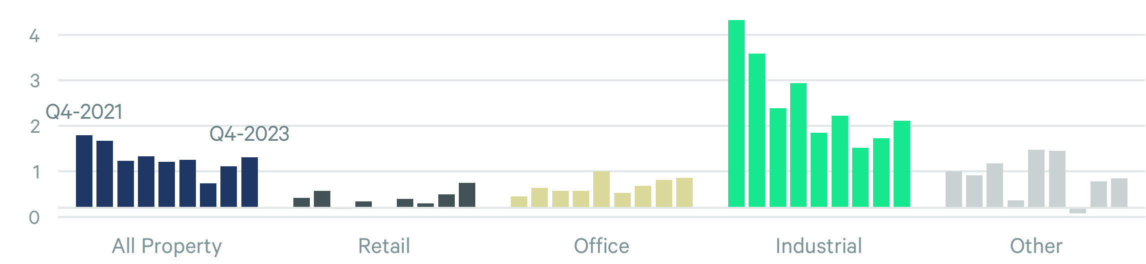
The latest data from Q3 2023 suggest that despite a slowdown in demand, prime logistics rent increased by 2% over the quarter, and 4% over the past 12 months ago. Take-up remained broadly stable in Q3, with 3.3mn sq ft leased, down from an average of 9.5mn in 2022.

The office occupier market also remains somewhat resilient, CBRE report Q3 take-up was up 26% across Central London over the quarter, from 2.1mn sq ft to 2.6mn sq ft, with both submarkets seeing a rise in newly leased space. That said, the vacancy rate continued to edge up in Q3, to 8.8% from 8.3% in Q2.

The latest Centre of Retail Research recorded the number of retailers going into insolvency in 2023 at 61, impacting 971 stores. This was an increase in businesses failing y/y (46 in 2022), however a decrease in number of stores affected (2,318 in 2022). Hospitality operators remain under pressure due to labour shortages within the sector, although they have managed to pass on the majority of increased costs via higher room rates. Tourism is on track to recover to pre-pandemic levels by the end of 2023. And while visits remain lower than pre-pandemic levels, spending is higher by around 15%. Following a strong recovery in leisure travel and increasing corporate led demand, the meeting and events sector will be a substantial driving force behind growth in 2024.

Average residential rents outside London have hit a new record for the 15th consecutive quarter and are now 10% higher than a year ago at £1,278 per calendar month (pcm), according to Rightmove. Average London rents have also risen to a record of £2,627 pcm, now 12.1% higher than last year, compounding cost of living pressures for renters. The affordability of renting will have an increasingly important impact on rental growth in the near term, although we expect rents to continue to outperform inflation over the next 5 years.

Rental value growth, q/q %

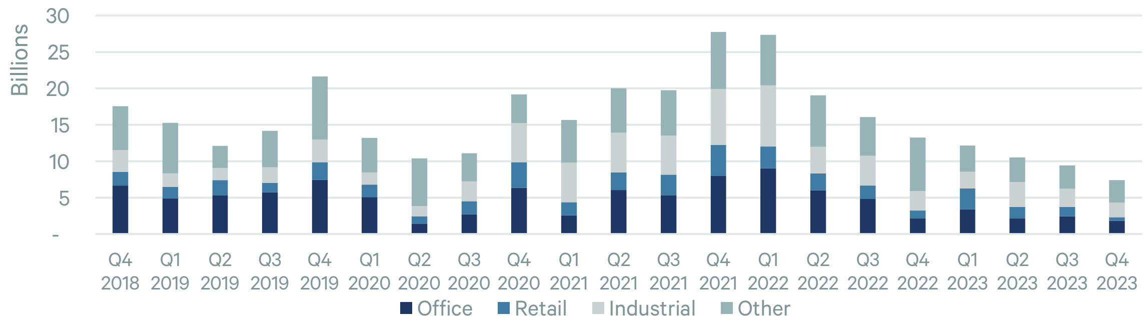


Source: CBRE Monthly Index

Capital markets

UK capital values decreased by 0.9% in December according to the latest MSCI monthly index. It was the eighth consecutive monthly decline, with the last positive growth being recorded in April 2023. Capital values in the three months to December decreased by -2.6% driven by office and retail which recorded capital value falls of -3.5% and -5.5% respectively, in the three months to December 2023. Industrial values fell by -0.4% on the month and -0.7% on the quarter. Liquidity remains constrained as both the elevated cost of debt and investors cautious both dampening transactional activity.

UK investment volumes, £bn



Source: RCA

Outlook

The new forecasting period, Q1 2024-Q4 2028, sees a slightly higher starting point for yields relative to our previous House View, but generally a set of return forecasts that are similar relative to the previous round. Total returns are expected to average 7.9% per annum over the forecast period, marginally down from 8.0% per annum in the previous round. Returns accelerate starting in Q2 2024. We believe that superior capital growth will lead to the logistics and residential sectors outperforming, alongside the healthcare and leisure sectors, which are mainly boosted by the strong income growth. The ongoing shift to online retailing, coupled with the reorganization of supply chains, is a strong driver of tenant demand for logistics assets, while tight land availability should limit a strong supply-side response, supporting rent growth as well. In residential, a raft of formats offers attractive opportunities. A lack of modern accommodations for an internationally mobile student population, as well as a demographic bulge in the domestic student-age population, underpin the case for purpose-built student accommodation in top-tier university towns. Housing is in short supply in the U.K., and investors could choose to allocate to both good-quality affordable housing, where regulated tenures provide index-linked leases and low-volatility returns, or private housing (both market and affordable) across single-family housing and build-to-rent formats, specifically where design and construction has limited operational costs.

Portfolio composition

Fund type allocation (based on invested NAV)

23.9%	35.5%	27.5%	13.1%
Open Ended	Semi Open Ended	Closed Ended	Cash

Summary of quarterly activity

Investment	Transaction type	Currency (local)	Amount (local) (M)	Amount (base) (M)
Airport Industrial Property Unit Trust	Sale	GBP	13.020	13.020
Curlew Student Trust	Return of Capital	GBP	0.707	0.707

RETURN OF CAPITAL

- **Curlew Student Trust ("CST"):** £707k of capital was received during the quarter following the sale of 6 out of 9 assets in the portfolio to Aviva Investors. The remaining three assets in the portfolio are expected to be sold over the course of 2024.

REDEMPTIONS SERVED

No redemptions were served during the quarter.

Update on outstanding redemptions:

- **Industrial Property Investment Fund ("IPIF"):** following the full (approx. £38.4m) redemption served in Q2 2023, IPIF confirmed that total redemption requests represented c. 7.5% of units in issue, below the 10% annual cap, and hence were accepted in full. IPIF has a long stop date of June 2024 to settle the accepted redemptions at the prevailing Bid Price; however, this may be settled earlier subject to asset disposals or matching.
- **UNITE UK Student Accommodation Fund ("USAF"):** the full redemption (approx. £24.8m) served in Q3 2022 remains outstanding. There is no long-stop date for the manager to settle redemptions. There are two actions that need to be completed before redemptions can be satisfied; the successful sale of a 2,623 bed portfolio due to complete in Q1 2024 and refinancing of the fund's revolving credit facility which is due to expire in March 2024.

SECONDARY MARKET SALE

- **Airport Industrial Property Unit Trust ("AIPUT"):** During the quarter, approximately £13.0m worth of units were sold on the secondary market. The trade was executed at a -4.75% discount to the Q3 2023 NAV.

We have adopted a flexible approach to maximise capital returns to investors as soon as practicable. The liquidation strategy remains driven by phased redemptions from open-ended funds, and a combination of holding closed-ended funds to maturity/next liquidity events, and secondary market sales.

Through a combination of secondary market sales and redemptions, Osiris has now liquidated its holdings from all open ended, core balanced and long lease holdings.

Due to the impact of the Covid-19 pandemic and now further impacted by volatile economic conditions, we expect the length of the wind down to be extended; there is no time limit on the termination so the Fund is not a forced seller and we will not seek to exit at 'fire sale' prices. We will continue to evaluate the market and consider the best options to facilitate a managed winddown of the Fund in these uncertain times.

As previously communicated to investors, income continues to be distributed quarterly; capital receipts will be distributed pro rata on an ad hoc basis as soon as practicable following the completion of transactions. During the quarter, no additional capital was distributed to investors; cumulative capital distributed to investors totals £281.3m (£1,510 per unit) since the liquidation commenced in March 2020. Post quarter, a further £13.1m (£140 per unit) of capital was distributed pro rata to investors in January 2024.

Portfolio holdings

Holding	NAV (£M)	% of portfolio[4,5]	Leverage[6]	Comment
UK				
Industrial Property Investment Fund	37.695	35.5%	15.5%	Specialist, core, semi open-end UK industrial fund. The fund is focused on good quality multi-let industrial estates throughout the UK with a bias towards London and the South East.
UNITE UK Student Accommodation Fund	25.394	23.9%	29.2 %	Specialist, core, semi open-end UK student accommodation fund. The fund has a well-diversified portfolio with a focus towards Russell Group universities and has a strong management team.
Airport Industrial Property Unit Trust	14.412	13.6%	19.9%	Specialist, core, closed-end fund predominantly focused on prime industrial estates and logistics warehouses in the Heathrow area as well as some exposure to other major UK airports.
Ardstone UK Regional Office Fund	11.085	10.4%	38.8%	Specialist, core, closed-end UK regional office fund invested in good quality office assets in major city central business districts. The fund is in wind down and returning capital to investors.
Curlew Student Trust	2.179	2.1%	36.5%	Specialist, core, closed-end fund invested in purpose built student accommodation assets across the UK. The fund is now in the process of selling assets and winding down its structure.
Nuveen UK Shopping Centre Fund	1.462	1.4%	45.9%	Specialist, core, closed-end fund invested in prime dominant shopping centres including Princesshay, Exeter and St. James Quarter, Edinburgh.
Lend Lease Retail Partnership	0.062	0.1%	0.0%	Specialist, core, closed-end fund investing in prime shopping centres. The fund has sold all assets and is in the process of winding down its structure.
Total value of holdings	**92.288**	**86.9%**		
Cash	13.201	12.4%		
Debtors/Creditors[7]	0.707	0.7%		
PORTFOLIO TOTAL	**106.196**	**100.0%**	**22.3%**	

[4] Calculated as Fund NAV / Portfolio NAV.
[5] Minor differences may appear due to rounding.
[6] Debt / GAV, in-line with the leverage formula of MSCI and INREV.
[7] Debtors/Creditors include income and expenses as well as pending trades but does not take account of any client capital funding requested in the quarter but due in the subsequent period.

Compliance and corporate actions

Compliance with investment restrictions

The fund is now in its wind down period, the investment restriction limits no longer apply.

Corporate actions

During the quarter, CBRE IM voted on the following corporate actions:

– **Ardstone UK Regional Office Fund:** CBRE IM approved the disposal of asset 1 Newhall Street, Birmingham for a sale price of £15.345m; proceeds will be used to reduce the funds debt facility.
– **Curlew Student Trust:** CBRE IM approved: (i) an extension of the Trust by 14 months to February 2025; and (ii) the minimum acceptable settlement figure in relation to a mediation process with the contractor and architect with regards the replacement of the defective stonework rainscreen at Potterrow 1, Edinburgh.

Fees payable to CBRE Group, Inc

– During the quarter there was nothing payable to CBRE Group, Inc. for secondary market brokerage on behalf of UK Osiris Property Fund.
– Our operating partner for Curlew Student Trust have appointed CBRE Group as valuer to the fund, for which CBRE earned a fee of GBP 23,700 for the quarter.

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Glossary:

Term	Description
Value of holdings	This is the sum of the Net Asset Value (NAV) of the underlying holdings, excluding cash, hedging and debtors/creditors
Undrawn fund commitments	Commitments made to underlying funds but which have not yet been drawn
Portfolio NAV	Value of holdings plus cash, debtors/creditors and unrealised gain/loss on hedging
Undrawn client commitments	Capital committed by the client but yet to be drawn
Available to commit	Represents undrawn client commitments plus cash on account minus undrawn fund commitments
Leverage	Debt / GAV, in line with the leverage formula of MSCI and INREV

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