

# QUESTIONS & ANSWERS

## CHANGE TO PRICING BASIS OF THREADNEEDLE RETAIL UK PROPERTY FUNDS

On 23 January 2017 Columbia Threadneedle Investments changed the pricing of the dual-priced Threadneedle UK Property Authorised Investment Fund and the Threadneedle UK Property Authorised Investment Trust from being priced on an **bid** basis to being priced on a **offer** 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”)

*Please note: the Threadneedle UK Property Trust was converted into the Threadneedle UK Property Authorised Investment Fund on 14 May 2016*

### **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. This helps to protect investors remaining in the Funds, so that the cost to an investor of redeeming their shares reflected the appropriate proportion of the subsequent costs of selling properties in order to raise cash levels to meet the redemption demands.

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?**

We have changed the pricing basis of the Funds back to an offer basis after a period of positive net inflows i.e.the Funds have experienced a sustained period of more money being invested than redeemed. This means there is no longer a need for the Funds to sell some of the property they hold to increase the level of cash in the Funds in order to meet the demand of client redemptions.

**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.

Should the Funds experience a sustained period of net outflows in the future, we would consider changing the pricing to a 'bid' basis if it was in the best interest of investors.

**Q: What does this mean for my investment?**

For continuing investors there will be a positive performance impact on the Funds as a result of a switch from an bid basis to a offer basis of approximately 4.9% as the share price will increase. For investors selling shares, the redemption value will also have increased.

**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.

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