

QUESTIONS AND ANSWERS

Proposed conversion of the Threadneedle
UK Property Trust into a Property
Authorised Investment Fund (PAIF)

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Terms which are defined in the glossary of the circular shall have the same meaning in this document.

Your questions answered

We realise that you may have questions about how the proposed conversion will affect your investment. With that in mind, we have set out in the next few pages to answer the questions most commonly asked.

If you have any further questions please don't hesitate to contact us free on 0800 953 0134*. Our customer services team is available 8.00am to 6.00pm Monday to Friday. You will need to provide your client reference number in order to discuss your account details with us.

1. The changes explained

Introduction

Threadneedle proposes providing tax-exempt investors in the Threadneedle UK Property Trust (the Trust) with the opportunity to benefit from the Property Authorised Investment Fund (PAIF) tax regime introduced by HMRC, by converting the Trust on 2 May 2015.

To achieve the conversion, we are proposing that a new PAIF compliant Open-Ended Investment Company (OEIC) be launched and the Trust merged into it.

In order to go ahead, the proposal needs to be approved by unitholder vote with at least 75% of the votes validly cast in favour.

1.1. Why are we proposing these changes?

We believe the PAIF structure will significantly benefit our tax-exempt investors, including those investing through a New Individual Savings Account (NISA), Self-Invested Personal Pension (SIPP) and also charities and directly invested pension funds. We are proposing to convert the Trust into a PAIF so that eligible investors can enjoy those benefits, and because our existing, non-exempt investors will generally be unaffected by the change.

1.2. What is a PAIF?

A PAIF is an open-ended investment company, the gains of which are exempt from corporation tax. The structure was introduced by HMRC as a way of enabling eligible investors in authorised UK property funds to receive gross income from their investments (i.e. not taxed). In order to accomplish this, PAIF compliant funds are required to report the income they pay to investors in up to three streams (see question 1.4).

1.3. What will the Threadneedle PAIF fund be called?

The new fund will be called the Threadneedle UK Property Authorised Investment Fund or simply the "Threadneedle PAIF".

1.4. What is streamed income – how does it work?

Typically, a property fund will derive its income from various sources, including rental income and interest.

Currently, the Trust distributes all income to its investors as a single payment in each distribution period. This payment is treated as a “dividend” distribution, which means it includes a tax credit which cannot be reclaimed (even by investors who are normally non-tax payers).

A PAIF is different because, although it still makes one payment in each distribution period, this payment is split into three separate “streams” for UK tax purposes (and this breakdown will be shown on your tax voucher):

- Property income
- Interest income and
- Other income (dividends).

Splitting the income payment into three streams allows each to be treated differently for tax purposes.

As the income is no longer subject to 20% tax, both property income and interest income can be paid gross (i.e. without the deduction of tax) to eligible investors.

Income stream	Comprising of	Tax treatment	
		Eligible investors*	Ineligible investors*
Property	Mainly rental income	Paid gross without tax deducted	Paid with 20% income tax deducted
Interest	Any interest earned on property bonds or cash deposits		
Other	Any dividends (and some non-taxable rental income)	Paid as a dividend distribution, so tax credits cannot be reclaimed	

*Eligible investors are those able to receive or reclaim the tax deducted at source

1.5. When are the changes happening?

Subject to the proposal being approved by unitholders, the Trust will be converted to a PAIF with effect from 2 May 2015. Please refer to the “Timetable for the proposals” section on page 3 of the circular document for a comprehensive timeline of the changes.

1.6. Who is paying the costs of the conversion?

Threadneedle will bear all costs relating to the conversion.

1.7. Why does the circular mention a “Feeder Fund”?

A feeder fund is a fund which invests solely in another fund. In this case, the Threadneedle UK Property Authorised Trust (“the Feeder Fund”) will be launched to invest solely into the Threadneedle PAIF.

The Feeder Fund will not be subject to PAIF rules, and it is being specifically established for corporate investors who are ineligible to invest in a PAIF, and/or investors unable to do so for operational reasons (for instance those unable to support streamed income). If you are an additional rate taxpayer, the Feeder Fund may also be preferable to you – please see question 3.5.

2. Will I benefit from the changes?

2.1. Do I qualify to benefit from gross distributions?

If you are invested in the Trust via a tax-exempt vehicle (for example, a NISA or a pension), or you are an exempt institutional investor, such as a charity, you will qualify to receive gross distributions from the Threadneedle PAIF. If you are not exempt, you will not qualify to receive gross distributions. However, if you do not pay UK income tax (for instance because your income is covered by your personal allowance), you may be able to reclaim from HMRC some of the tax deducted from your income payments.

Threadneedle cannot give tax advice or comment on individual circumstances – if you are unsure regarding your tax position, you should consult a tax adviser.

2.2. How often will the Threadneedle PAIF make income distributions?

The Threadneedle PAIF (and its Feeder Fund) will make distributions more often than the Trust currently does. Income distributions will be made quarterly, rather than half-yearly. This means that those investors who take or reinvest their income can do so more frequently. We believe that this will be to the advantage of all our current investors in the Trust.

3. How will the conversion impact me?

What are the tax implications?

3.1. I am not a UK resident for tax purposes. Can I claim tax back from HMRC?

Depending on your personal circumstances, you may be able to reclaim from HMRC some of the tax deducted on property income distributions and PAIF distributions (interest). Please consult HMRC or your tax adviser for more information.

3.2. Will my tax vouchers or tax return be affected by the changes?

Yes. Your tax voucher will show up to three streams of income (see question 1.4). Please note that if you hold income shares, one payment will still be paid, but this will be done so more frequently, on a quarterly rather than half-yearly basis. Each income stream will need to be disclosed on your tax return separately. You should contact HMRC or your tax adviser if you are in any doubt as to how to complete your tax return.

3.3. Will I need to pay Capital Gains Tax as a result of the conversion?

No. The conversion is not considered a taxable event.

3.4. What are the changes to my tax position after the conversion?

Currently the Trust pays tax at 20% on the income received and you cannot claim this back. If you are a tax exempt investor, or you hold your investment in the Trust in a New Individual Savings Account (NISA) or in a pension, you will benefit from the Conversion to the Threadneedle PAIF.

When holding your shares in the Threadneedle PAIF via a NISA, **we will be able to pay you any rental income or interest income gross of tax**. When holding shares in the Threadneedle PAIF via a pension, either the pension provider will arrange for it to be receiving income gross or your pension provider will be able to claim back the tax on your behalf. All things being equal, **we believe that this will boost the income you receive from the fund by 25%**.

3.5. How do these changes impact additional rate taxpayers?

Additional rate taxpayers who currently hold units in the Trust outside of a tax wrapper such as a NISA or pension may marginally benefit from holding units in the Feeder Fund rather than shares in the Threadneedle PAIF.

This is because the streamed income of the Threadneedle PAIF will give them a higher tax burden due to the additional rate of tax payable on Interest and Property Income (two of the income streams mentioned in question 1.4). This is explained on page 13 of the circular document. If you hold units in the Feeder Fund, however, you will be in the same tax position as you currently are with the existing Trust.

Investors can choose to move to the Feeder Fund by completing the Form of Election (pink coloured form) enclosed.

You should contact your tax adviser if you are in any doubt over the impact of the proposed conversion.

Will there be any changes to the way in which my investment is managed?

3.6. Will the Threadneedle PAIF and Feeder Fund be managed by the current fund management team?

Yes, the current team will continue to manage the Threadneedle PAIF and Feeder Fund.

3.7. Will there be any changes to the way my investment is being managed?

No. The proposed change aims solely to deliver a taxation benefit for tax-exempt investors, and to allow income distributions to be made more frequently. There are no significant differences between the investment powers, risk profiles and strategies of the Trust and the Threadneedle PAIF. Your investment will be managed in the same way.

3.8. How will the Feeder Fund be managed?

The Feeder Fund will invest directly and solely in the Threadneedle PAIF and will therefore access the same underlying investments. Please note, however, that while we aim to ensure the performance of the Feeder Fund and the PAIF are as closely aligned as possible, the impact of any operational cash balances held in the Feeder Fund means that the investment return from units in the Feeder Fund may not be an exact match to those of the corresponding share in the Threadneedle PAIF.

3.9. Will there be any changes to the charges?

There will be no changes to the charges. In the majority of cases, after the conversion you will remain in a share class directly corresponding to your current unit class and the charges will be identical.

3.10. Will there be any changes to how my income distributions are being paid?

No. If you have chosen to receive income, we will continue to pay your distributions as per your current arrangements, i.e. by direct credit or cheque. If you have chosen to reinvest your income or you have your income accumulated, this will continue after the conversion.

In contrast to the Trust however, the PAIF and its Feeder Fund will make income payments quarterly, instead of half yearly (see below).

3.11. Will there be any change in income distribution dates?

The final distribution payment for the Trust will be made on 15 July 2015, and will pay the income accrued over the period 16 November 2014 to 1 May 2015. Following the conversion, the Threadneedle PAIF will make payments on 15 October, 15 July, 15 January and 15 April of each year. The first income distribution will be 15 October 2015, for the period 2 May 2015 to 15 August 2015. This is more frequent than the Trust, which makes income payments only twice per year.

If you currently have your distribution payments reinvested in additional units we will ensure that this arrangement continues. The final payment from the Trust will be reinvested into additional shares in the Threadneedle PAIF (or additional units in the Feeder Fund if you have elected to invest in the Feeder Fund).

What impact will the conversion have on my investment?

3.12. Why is my investment being converted into shares in the Threadneedle PAIF? Can I invest in the Feeder Fund?

We believe that where possible all investors should invest directly in the Threadneedle PAIF.

Although there may not be any tax advantage to you from investing in the Threadneedle PAIF, this fund will be the main investment vehicle for investors. As explained in answer to question 1.7, the Feeder Fund is being created solely for investors who are either not eligible or not equipped to invest directly in the Threadneedle PAIF. If you are eligible to invest in the Threadneedle PAIF and the proposal goes ahead, your investment will be converted by default into shares in the Threadneedle PAIF.

If you have a reason why your investment should be via the Feeder Fund you should complete and return the Form of Election (pink coloured form enclosed in the Election Forms Booklet). With your instructions, we can arrange to have the shares you will receive in the Threadneedle PAIF on the conversion immediately switched into the Feeder Fund. Your form must be received by us no later than 30 April 2015.

3.13. What will happen to my investment?

Whilst the Trust is a unit trust, which issues units, the Threadneedle PAIF will be an Open-Ended Investment Company (OEIC), which issues shares.

If the proposal is approved by unitholders in the Trust, your investment in the Trust will, by default, be converted into shares in the Threadneedle PAIF on 2 May 2015.

However, if you are a corporate investor (or a corporate nominee) and do not complete and return the Form of Election and Corporate Declarations and Undertakings (blue coloured form) to us by 30 April 2015, you will receive units in the Feeder Fund. You will also receive units in the Feeder Fund if you have elected for this (see question 3.12 for more information).

We will send you notification by 18 May 2015.

3.14. What will happen to my income instructions?

Your income instructions will remain in force. For example, if you hold units, but have had the income reinvested, the income from your shares in the Threadneedle PAIF will also be reinvested. Similarly, if you have a bank mandate in operation, income will continue to be paid to the same bank account.

3.15. Will the conversion produce a non-dealing period?

On the basis that the conversion is approved at the Meeting, it will be implemented on 2 May 2015. Dealing in units of the Trust will be suspended from noon on 30 April 2015 to allow sufficient time to implement the conversion. Dealing in the Threadneedle PAIF and the Feeder Fund will commence on Tuesday 5 May 2015.

3.16. Can I sell or switch my holding before the effective date?

Yes. You can make changes to your investment at any time before noon on 30 April 2015. You may wish to contact our customer services team free on 0800 953 0134* for further information ahead of doing so.

3.17. Can I sell or switch my holding before I receive notification of my new holding?

Yes. Dealing in shares in the Threadneedle PAIF is expected to commence on 5 May 2015. You do not have to wait until you receive your conversion acknowledgement before you can deal.

4. Do I need to take any action?

4.1. What action is needed?

In order to go ahead, the proposal needs to be approved by a unitholder vote, with at least 75% of the votes validly cast being in favour. The votes will be counted following a Meeting at Threadneedle Investments, 60 St Mary Axe, London, EC3A 8JQ at 9.30am on 9 April 2015. You are welcome to attend this Meeting, but if you are unable to attend in person we have enclosed all the necessary information for you to cast your vote by post.

We urge you to vote “yes” to the proposed change. We believe that the proposal is in the overall best interests of investors in the Trust. It is important that you do take this opportunity to vote, as without a positive vote the conversion will not go ahead.

4.2. Who is entitled to vote?

Providing you were a unitholder in the Trust on 23 February 2015 and remain a unitholder on the date of the Meeting, you will be entitled to vote.

4.3. How do I vote?

You are entitled to vote either by post or by presence at the Meeting. If you do not wish to attend the Meeting, please send your completed Form of Proxy/Voting Form to: **Electoral Reform Services, 33 Clarendon Road, London N8 0NW** by **9.30 am on 7 April 2015**. A proxy voting form is attached to the cover letter and a pre-paid envelope is enclosed to allow you to do this.

4.4. How do I find out the result of the vote?

The result of the vote will be announced at the Meeting or you can find out the result by either calling our customer services team free on 0800 953 0134 or visiting our website at www.threadneedle.com. If the proposal is approved a letter will be sent to all unitholders by 18 May 2015 confirming details of the new holding in the PAIF or Feeder Fund.

4.5. Why must corporate investors complete the blue Form of Election and Corporate Declarations and Undertakings?

Individual investors should not complete this form; it is designed to obtain certain declarations from corporate clients that limit the extent of any direct holdings in the Threadneedle PAIF, in accordance with HMRC rules. The Form of Election also serves to allow eligible investors to receive gross paying shares, which will generally provide for improved cash flow and in some cases reduced administration.

4.6. When must the blue Form of Election and Corporate Declarations and Undertakings be returned?

Each corporate investor must sign and return the blue Form of Election and Corporate Declarations and Undertakings by 30 April 2015 if they wish to invest in the PAIF. If this form is not received by that date, units in the Feeder Fund will automatically be issued instead.

TO FIND OUT MORE
visit **threadneedle.com**