Aberdeen Property Nordic Fund I SICAV-FIS

Quarter 2, 2019

For professional investors only, in Switzerland for qualified investors only – not for use by retail investors or advisers

AberdeenStandard Investments

An open-ended property fund (SICAV-FIS) for institutional investors (German Spezialfond compliant) intending to invest in Nordic commercial properties.

Investment objective and strategy

Aberdeen Property Nordic Fund I SICAV-FIS (the "Fund") is an open-ended fund designed to invest in a well-diversified portfolio of Nordic commercial properties. The Fund is pursuing a core to core-plus strategy, focusing on established property locations in Sweden, Denmark, Finland and Norway with high-value growth potential. The main investment focus is on office, mixed-use and retail properties in major economic centres, although the Fund may also invest in logistics properties as and when suitable.

The Fund's total return target is >6% per annum (leveraged), before investor tax and the dividend target is >4.0%, before investor tax.

Quarterly commentary

Market commentary

The Eurozone is in a manufacturing recession. Key to the outlook is whether this downturn will broaden to drag overall GDP growth negative. We are forecasting very low, but still positive, growth – but clearly the Eurozone remains extremely vulnerable. Therefore, significant monetary easing is on its way. The story is slightly different in the Nordic region, where economies have been remarkably resilient so far, with both GDP growth and export holding up well. Key export sectors in all four countries have been doing well, such as pharmaceuticals in Denmark, export of services in Sweden, oil related investments in Norway and ships in Finland. Going forward, lower global growth is expected to be visible in the Nordic economic data, but sound domestic activity is likely to mitigate some of the effect. Norway is one of the few countries globally where interest rates are on the way up, as a result of inflation rates and growth levels at a level that suggests monetary tightening.

According to MSCI, Nordic property funds delivered a return of 0.8% (EUR) during second quarter of 2019 which equals to 4.8% over the last twelve months. Distribution yield over the same period equals 4.6%, arguably becoming an increasingly important factor given the late cycle environment of real estate markets. In comparison, Nordic listed equities had a quarterly performance of 2.6% and Nordic listed real estate companies 2%. Over the last twelve months, their returns are 6.2% and 28.5% respectively. The strong share price appreciation of Nordic listed real estate companies has resulted in the sector being priced at 1.20-1.25% above book values.

Including August 2019, Nordic transaction volumes continued to be slightly below figures from the preceding twelve-month period, according to Pangea Property Partners. This is a slowdown from high levels also experienced for Europe as a whole. International buyers continue to be very active in the Nordic region, accounting for some 40% of the buy-side transactions. However, increasing hedging costs have resulted in lower interest for the absolute best core properties and has been particular visible in Norway recent quarter. While prime office yields continue to be transacted at low levels, if monetary policies continue to tighten – the outlook might suggest increasing yield levels. On the other hand, strong occupier markets and corresponding higher income potential might offset the effects of higher interest rates. Retail assets are, apart from the highest quality assets, increasingly challenging to dispose due to weaker investor sentiment. The industrial sector continues to be very sought after and likely to see some yield compression for the absolute best assets.

Important information overleaf

Key information

Legal structure	SICAV-FIS
Domicile	Luxembourg
Risk style	Core
Term	Open ended, infinite lifetime
Investment universe	Sweden, Denmark, Finland, Norway
Target size (GAV)	+EUR 500 million
Current size (GAV)	EUR 472.4 million
Minimum commitment	EUR 25 million (lower at Manager's discretion)
Target return	Income return: >4.0% per annum Total return: >6.0% per annum
Currency	EUR
Leverage	Maximum LTV 40% of GAV Current LTV of 22.3% of GAV
Liquidity	Redemption requests accepted quarterly
NAV reporting frequency	Quarterly
External asset valuation	Annual by property appraisers.
Launch	Q4 2006
Annual management fee	Fund management fee of 55bps of GAV
Other fees	Performance: 10% share over 4% on distributable income Portfolio management: 200bps of project costs Transactions: 100bps of purchase price Transactions: 70bps of sale price Property Management: 150-350bps of rental income

The value of investments and the income from them can go down as well as up and an investor may get back less that the amount invested.

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Transactions

In the last fiscal year, the Fund has completed five acquisitions in Stockholm, Helsinki, Bergen, Malmö and Århus with a total transaction volume of approx. €150m.

In December 2017, the Fund acquired "Sthlm03" in Stockholm, Sweden. The fully-let office property is located in Hammarby Sjöstad in central Stockholm, approximately three kilometres south of the central business district ("CBD"). Being one of central Stockholm's most recently developed areas, Hammarby Sjöstad is characterised by a modern property stock and well-thought-out urban planning. The property has a WAULT of approximately six years and will aim for a LEED platinum sustainability rating.

Also in December 2017, the Fund acquired a prime office property located in the CBD of Helsinki, Finland. The asset, prominently located in the heart of Helsinki and on the corner of Erottajankatu and Ludviginkatu, comprises of 9,009 sqm of flexible floor plans. The asset offers a good upside in applying an active portfolio management strategy of decreasing costs and lifting rent potential by letting 11% of vacant space. The WAULT is 6.5 years.

The property, Bradbenken, signed in December 2017 and acquired in early January 2018, is a very well-known building located in the city centre and harbour (Bryggen) of Bergen, Norway's second largest city after Oslo. The off-market transaction comprised a 10,737 sqm let-able area enjoying a 95% occupancy rate. The property is a high quality office building with a diversified and solid tenant base, and is assessed to offer considerable upside because of active portfolio management opportunities.

In July 2018, the Fund acquired a high-street retail and office property located on one of the best shopping streets in the city centre of Malmö. The building constitutes 2,399 sqm and was constructed in the beginning of the 20th century but was thoroughly renovated in the years 2003-2004 by NCC who also was the owner of the property at the time. The tenants are two well-known retailers within the shoe industry, and four smaller office tenants. The asset offers a good upside in applying an active portfolio management strategy.

In August 2018, the Fund also acquired a high-street retail and office property located on one of the best shopping streets in Denmark´s second largest city, Århus. The property is multi-let, totalling 1,918 sqm. and benefits from close proximity to the newly developed harbour area, the attractive shopping centre Salling, cafés, night life and public transport. The retail unit has high ceiling window sections giving good visibility to the high-street. The offices benefit from balconies and a roof terrace.

At the end of September 2018 the Fund successfully disposed the mixed-use city galleria Apoteket 9 (Filbyter Gallerian), Linköping, Sweden. The transaction offered the opportunity to successfully dispose a property in a more and more challenging retail market at an agreed property price significantly above latest valuation. The buyer was a local family-owned property company which already holds the neighbouring properties.

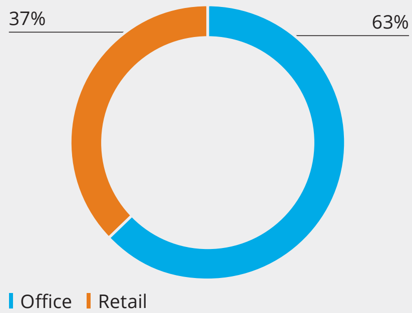
The current deal pipeline is promising and further acquisitions are expected to materialise towards end of 2019.

Portfolio management

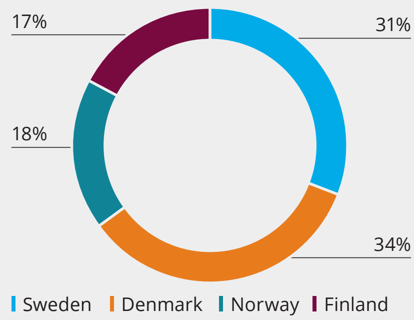
Among the most notable portfolio management activities within the last year was the successful re-gearing of the main lease with PwC in Citykajen, Malmö. In addition, a new lease signed with existing tenant Gjensidige Forsikring, allowed for a significant rent increase (head rent) compared to the previous rent level. Both of these leases were signed with a five-year non-termination clause.

Also the new letting of the c. 1,000 sqm vacant office premises in the newly acquired Helsinki CBD office property on a 10 years lease contract has added value to the Fund´s portfolio. In the newly acquired office property in Bergen, Norway three lease contracts compromising c.44% of the property´s rental income have been re-geared since take-over of the property in January 2018.

Current sector allocation[1] (%)



Current geographic allocation[1] (%)



Figures may not always sum to 100% due to rounding.

Investment universe

[1] preliminary figures. Figures may not always sum to 100% due to rounding.
All figures (unless otherwise indicated) are as at 30 June 2019.

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The financial year marked the fourth year of the Fund's participation in the Global Real Estate Sustainability Benchmark ("GRESB"). The 2019 GRESB ratings for the Fund ended at 77 out of 100 points which lead to three stars. Aspects for improvement have been identified which will be implemented in the 2020 reporting with the goal to achieve four stars.

Performance summary

	2014	2015	2016	2017	2018	2019[1]	Last 3 CAL years	Last 5 CAL years
Nordic 1 Fund level return	(2.2)	2.0	11.5	5.9	6.0	1.2	7.8	4.5
Property level total return	6.0	8.2	13.6	8.3	9.5	3.2	10.5	9.1
IPD Nordic Index[2]	7.0	10.6	10.6	9.1	9.0	N/A	9.6	9.2

[1] preliminary figures. Figures may not always sum to 100% due to rounding.
[2] Last 3 / 5 CAL years up until 2017.
YTD performance 2019, as at 30 June 2019

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