ASI Global Real Estate Fund

Quarterly Update - Q4 2020

Aberdeen Standard Investments

The ASI Global Real Estate Fund quarterly update provides an overview of the market; fund performance, positioning and portfolio changes; and the fund manager's outlook for the months ahead.

ASI Global Real Estate Fund, a Sterling denominated unit trust - This fund is managed by Aberdeen Standard Fund Managers Limited.

ASI Global Real Estate Fund invests in assets that may at times be hard to sell. This means that there may be occasions when you experience a delay or receive less than you might otherwise expect when selling your investment. For more information on risks, see the prospectus and key investor information document.

OBJECTIVES AND INVESTMENT POLICY

Investment Objective

To generate income and some growth over the long term (5 years or more) by investing in global commercial property markets.

Performance Target: To exceed the return of the MSCI Global Custom Property/MSCI World Real Estate Custom Index over rolling three year periods (before charges). The Performance Target is the level of performance that the management team hopes to achieve for the fund. There is however no certainty or promise that they will achieve the Performance Target.

The Manager believes this is an appropriate target for the fund based on the investment policy of the fund and the constituents of the index.

Economic overview

- As economies have started to revive, so too have the real estate occupier and investment markets. But activity in both of these areas of the market remains subdued and the current increase in infections/restrictions has impacted market activity once again. With relatively subdued activity, price discovery is taking some time and we continue to expect prices to fall further in the first half of 2021, reflecting the challenging occupier markets. The market continues to be polarised between sectors that were already benefiting from long-term structural drivers – the industrial and residential sectors and sectors that were struggling due to structural headwinds – for example, the retail and office sectors.
- Given the ongoing price dislocation, there may be opportunities for investors with capital to re-enter the market further on into the cycle at a more attractive price point. Our long-term worth analysis suggests that pricing remains stretched, although this is changing as prices correct and yields increase.
- The significant monetary and fiscal support that has been extended to economies remains a key positive for real estate markets, ensuring we avoid a financial crisis. It also helps to keep occupiers in business and limits unemployment, which should help moderate the expected increase in vacancy rates. A proportion of the income real estate generates at present is vulnerable to insolvencies and occupier distress. Nevertheless, we anticipate that income will remain favourable on a longer-term basis when compared with the yield on government bonds. These are likely to be close to zero or at low levels for a significant period. Presently, the margin between the asset class and the risk-free rate has moved to elevated levels. Undoubtedly, a higher risk premium is appropriate for consumer-facing sectors that were already struggling with longer-term secular trends. However, the increase in risk premium for sectors that will benefit from long-term structural drivers is likely to be relatively small. We expect the income from these sectors to compare favourably with the low yields on offer from other asset classes.
- We therefore favour the industrial sector, which is benefiting from changes in technology and the way we are shopping. We also like the private rented sector because of the increased propensity to rent and the unaffordability of housing markets generally. We favour the alternatives sectors that are benefiting from population ageing, namely the senior living and healthcare sectors. We also prefer prime sustainable well-located office buildings. We continue to remain risk averse and a forensic approach to underwriting is key at present given the heightened market risk.

Real estate markets

North America

- Vacancies rose across property sectors in 2020. The sharpest rise was in offices as leasing activity has plummeted. Rental losses have been modest thus far, but they are expected to accelerate as more leases expire. Gateway markets are likely to experience the greatest near-term weakness as their rents have been more volatile during recessionary periods. The net operating income (NOI) for apartments declined significantly in 2020, driven by a deterioration in fundamentals among urban core properties. The central business district (CBD) net absorption in gateway markets turned negative for the first time in the available 20-year history from the CoStar Group. However, suburban submarket demand continued to expand, supporting effective rental growth. Malls have continued to underperform, while grocery-anchored centres remained resilient in 2020. Simon Property Group, the largest shopping mall operator in the US, reported a 24% annual decline in NOI among comparable properties in the third quarter. At the same time, vacancies for grocery-anchored centres were stable. After slowing in the second quarter of the year, leasing activity for industrials has returned to pre-pandemic levels. Leasing activity in the fourth quarter of 2020 was 10% higher than the historical average, as per CoStar data. Demand growth remained strongest for bulk industrial assets.

- Transaction activity slowed significantly in 2020 but recovered from pandemic lows at the end of the year, according to Real Capital Analytics (RCA). Total sales volumes were down by 30% for the year, with the steepest declines in hotels, retail and offices. However, sales volumes rebounded to $145 billion in the final quarter, driven by gains in apartments and industrials – nearly triple the $50 billion mid-year low. Office sales volumes rose substantially from recent lows. But sales volumes remained weaker for the CBD compared with offices in the suburbs. The average suburban office cap rate compressed modestly, while it rose slightly for CBD offices. The suburban-to-CBD cap rate spread fell just below its historical average (since 2002) of 100 basis points.
- The industrial sector is expected to remain a clear near-term outperformer. It is the most resilient major sector with the strongest demand for larger assets. Investors will continue to increase exposure to the segment, which will support pricing gains. Residential sectors offer a favourable return outlook, but there are major areas of weakness. Apartment fundamentals remain stable for suburban assets, but urban core property performance has deteriorated. It is likely to experience continued losses early this year. However, an improving labour market, vaccine rollout and slowing supply growth should support an urban recovery by the end of 2021. Retail performance will suffer most, with record-level store closures leading to continued NOI and value losses over the next year. Retail returns for centres focused on essential goods will lead, while malls will lag. Office sector fundamentals will continue to weaken, particularly for primary CBD assets. NOI losses and reduced investor appetite for the sector will weigh on capital values. Increased adoption of flexible work arrangements is a major long-term risk for the sector.

Continental Europe

- European transaction volumes experienced an acceleration in Q4, rising 35% q-on-q to reach €63.3 billion. However, the Q4 volume was just half the level seen in Q4 2019, and the annual total slid to 3% below the previous year. However, in light of the strict lockdowns and the barriers to movement, it is remarkable that liquidity held up so well.
- In particular, we have seen an increasing share of capital flow into residential and logistics assets. Residential and senior living accounted for 25% of total investment at €66 billion in 2020, an increase from 21% of the share in 2019. Logistics accounted for 14% of the total volume, a share that would have been higher had there been more stock on the market. This volume matched retail investment, also at 14%. In the context of the negative sentiment towards offices, as a result the largely successful enforced remote working, it is surprising that investment in offices held up well. Offices still accounted for the largest share of investment by sector, representing 37% of the total, down from 42% in 2019. Within the office sector, investors have adopted an increasingly lower risk approach – focusing mainly on large, efficient and well-located buildings in the major cities with close proximity to public transportation.
- Geographically, the lockdowns have had a specific impact on the ability of some markets to close deals at the same rate as before the pandemic. However, it has been particularly evident that institutional investors have targeted core European markets like Germany and France – with the idea that liquidity is stronger and that the economic recovery is more sustainable.
- These investment market pressures have influenced pricing trends. According to data from CBRE, both Eurozone residential and industrial real estate yields have compressed over the fourth quarter to reach new lows. The inward yield shift in the logistics market was most noticeable with a sharp step down of roughly 15 basis points, driven by the weight of capital in the market. For retail assets, we have seen a (continued) repricing of assets across Europe where yields have moved out further during lockdowns, rising by 5 basis points in Q4 for all retail and by 17 basis points in secondary shopping centres.
- Overall, capital values have recovered sharply in the best assets and sectors. It's particularly evident where tenant revenues are more resilient or where the demand drivers are structurally higher. Assets and sectors are more at risk where bank finance conditions are tightening sharply. This implies more pain for hotels, retail and leisure. Overall, we are less negative on capital values over the next 12 months than in the previous quarter as the fundamentals have remained more resilient than expected.

Asia-Pacific

- The average decline in net effective rents (NER) has accelerated across the major office markets in APAC as vacancy continues to climb. NER fell by an average 8.8% year-on-year (y-y) in the third quarter of 2020 (from -6.9%y-y in the second quarter) while the average vacancy rose to 11.2% (from 10.1%) during the same period, according to Jones Lang LaSalle's (JLL) estimates. Hong Kong remains the worst performing office market in APAC, with the average NER now 21.7% off its second quarter of 2019 peak and average vacancy is now at its highest since the fourth quarter of 2004. There has also been a marked deterioration in the Australian prime office market – average NER fell by 7.7%y-y in the third quarter of 2020 (from +0.5%y-y in the second quarter). Within the APAC context, we believe Australian central business district (CBD) offices could be more vulnerable to suburbanisation and remote working trends. On the other hand, the prime office market in Seoul has outperformed year-to-date (YTD), with the average gain in NER accelerating to 4.5%y-y in the third quarter of 2020 (from +3.8%y-y in the second quarter). This is in spite of an increase in vacancy to 14.3% (from 9.1%) during the quarter, on account of the completion of Parc1 in Yeouido. Tech companies appear to be one of the few remaining bright spots in terms of office leasing demand. In Singapore's CBD, Amazon has taken up more than 90,000 (square feet) sq. ft. at Asia Square Tower 1 and ByteDance has signed a lease for 60,000 sq. ft. at One Raffles Quay. We forecast office rents in APAC to fall by an average 0.6% per annum (p.a.) over the next three years. We think the bulk of the potential near-term downside in rents may already have been front-loaded given the faster-than-expected decline YTD and that the worst of the economic fallout is likely behind us.
- Similar to the office market in APAC, the average decline in prime retail rents accelerated to -12.9%y-y in the third quarter of 2020 (from -8.9%y-y in the second quarter), while vacancy rose to 5.7% (from 5.5%) during the quarter. Hong Kong prime retail remains the worst performing occupier market (-32.9%y-y in the third quarter of 2020, from -25.8%y-y the previous quarter). Regional centres in Perth fared relatively better during the last quarter (-1.6%y-y, from -2.2%y-y), with the pandemic largely under control in Western Australia. The pandemic has weighed heavily on retailers and the concern is that the number of retailers entering administration could increase once government support ceases. Also, the crisis has accelerated the adoption of online shopping. A case in point being Australia where online retail penetration

is estimated to have risen to 13.3% (from around 11% in 2019) – a number originally not expected to be reached until 2024. Notwithstanding the positive developments on the vaccine front and the potential for retail spend to recover further as economies reopen; we maintain our bearish stance on prime retail real estate. This is because of structural challenges, such as the loss of market share to online shopping, thinning retailers' margins and already high occupancy costs. Indeed, we forecast prime retail rents in APAC to fall by 3.2%p.a. over the next three years.

- The pandemic has accelerated the adoption of e-commerce and potential changes to supply chain management (including the maintenance of higher levels of inventory) are also expected to increase the demand for logistics space over the longer term. But the pandemic has had a negative impact on rents, even though the sector still outperforms. The average rent for logistics space in APAC fell by 0.6%y-y in the third quarter of 2020 (from -0.2%y-y in the second quarter), even as vacancy tightened to an average 2.7% (from 2.9%) during the quarter. Logistics properties in China's tier one cities remain the best performers in APAC, registering a gain of 3.8%y-y in rents during the third quarter of 2020 (from +5.8%y-y in the second quarter). The economic recovery in China has been stronger than expected and this has released pent-up leasing demand from express delivery firms and e-commerce platforms, as well as traditional retailers and wholesalers. In Australia, the average rental growth in logistics space slowed to 1.2%y-y in the third quarter of 2020 (from 1.7%y-y), principally on account of the lockdown in Victoria, but land-constrained urban locations continue to outperform. We reiterate our bullish view on the sector and forecast an average rental growth of 0.7%p.a. over the next three years.

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Fund positioning

Top 10 direct assets	Fund %
432 St Kilda Rd, St Kilda, Melbourne	8.0
WTC Almeda Park Building 4, Barcelona	7.6
DC Goossens, Veghel, Doornhoek 3865, The Netherlands	7.6
3 & 5 Custom House Plaza, IFSC, Dublin	7.0
44 Esplanade, St Helier, Jersey	6.5
48/48A, 52/54 and 56 Peck Street, Singapore	6.2
Galeria Gniezno, Palucka 2, Gniezno	5.9
Niu Fury, Munich, Germany	3.9
11 Amour Street, Milperra, NSW	3.8
Retail Park Hana, Kafkova 471/29, Olomouc	3.8

Source: Aberdeen Standard Investments, 31 December 2020.
Figures exclude Cash.

Top 10 tenants (Direct only)	% Contracted Rent
Ogier	10.6
Goossens	8.6
Revlon	7.3
Citco	5.3
Dutch Heart Foundation	4.3
Jamestrong Packaging Australia Pty Ltd	4.3
Novum Hotels Sub GmbH	3.9
Kohler	3.6
Mainfreight Logistics Pty Ltd	2.8
Coil Steels Group Pty Ltd	2.6

Source: Aberdeen Standard Investments, 31 December 2020.
Figures exclude Cash.

Fund facts

Fund size	£483.6m
Average lot size	£21.8m
Average lease length	4.6 years*
Number of direct properties	17
Number of tenancies	146
Distribution Yield	3.45%**
Standing Void	5.31%

Source: Aberdeen Standard Investments, 31 December 2020.
*Average Unexpired lease term (to first break) - Yrs

**Yields are historic based on the preceding 12 months' distributions as a percentage of the mid market unit/share price at date shown. Yields will vary, do not include any preliminary charges, and investors may be subject to tax on distributions. Based on institutional income shareclass.

Top 5 listed holdings	Fund %
Prologis Inc	1.3
Goodman Group Npv (Stapled Units)	1.1
Duke Realty Corp Com	1.0
Equity Lifestyle Properties	0.9
Vonovia	0.9

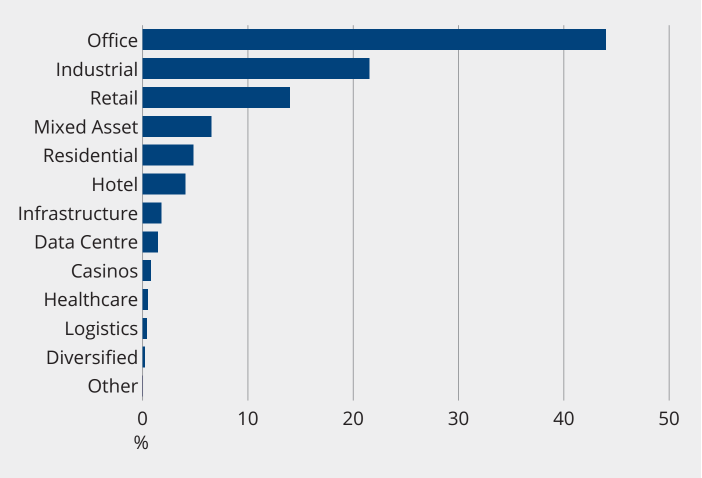
Figures exclude Cash.

Performance - % growth

	3 mths	6 mths	1 yr	3 yrs*	5 yrs*
ASI Global Real Estate Fund	-4.2	-4.6	-5.5	2.1	4.9

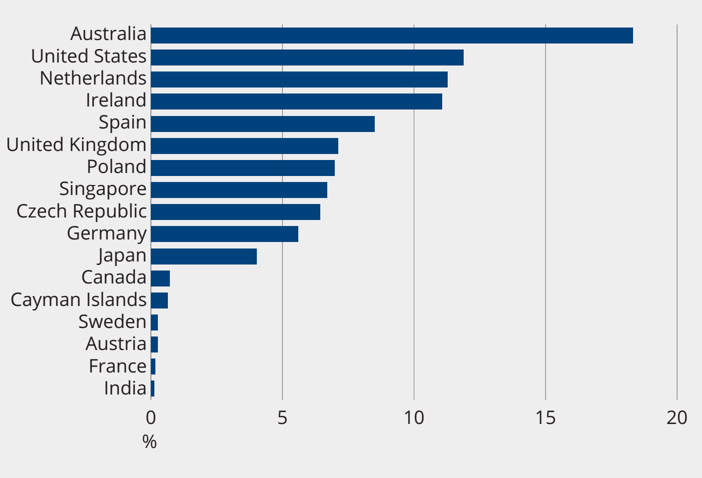
Source: Aberdeen Standard Investments, 31 December 2020.
Fund performance is quoted net of Platform 1 fees.
*Returns are annualised

Sector allocation



Source: Aberdeen Standard Investments, 31 December 2020.

Geographical breakdown



Source: Aberdeen Standard Investments, 31 December 2020.

*MSCI classify the Channel Islands as part of the UK for benchmarking purposes, this is the reason the asset in Jersey falls under the UK.

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Portfolio update

The Fund reopened for dealing on the 16th November following the removal of the material valuation uncertainty clauses by the Fund's Standing Independent Valuer across all but two of the Fund's direct assets (subsequently the clause pertaining to the Munich hotel has been removed meaning that only Melbourne office is now impacted).

In order to maintain the Fund's enhanced liquidity position we are seeking to make sales from within the direct asset portfolio and have begun the process of marketing a handful of assets that are not expected to be accretive to Fund performance going forwards. Due to the current liquidity constraints we have not actively been pursuing further acquisitions.

Within the listed portfolio the office exposure was trimmed by reducing holdings in Allied, Cousins, Douglas Emmett, Highwoods, Hudson Pacific, Alstria, CA Immo and Colonial due to concerns over the outlook for future performance.

During Q4 the Fund received a £3.7m distribution from Saffron, the Manager of the Indian focused residential Fund which had recently managed to secure an exit from their final asset.

In terms of asset management initiatives, we are in the process of extending the lease term of the Goossens lease at Veghel by 5 years. This will give them an unbroken lease term of 13 years and in part reflects their desire to invest into the building and undertake a number of sustainable initiatives. We are also close to agreeing terms with the hotel operator at Munich to rebalance the profile of their rental payments so that they pay a lower amount in 2020 and 2021 with these monies recouped from 2023 onwards.

Performance review

During Q4 the Platform 1 accumulation share class of the Fund returned -4.2%. This was largely due to the change in the long term pricing basis of the Fund following the move from offer to mid on the 16th November which took in excess of 5% off unit price performance. Both the listed and direct holdings produced positive total returns and partially ameliorated this negative movement. The listed portfolio returned 0.9% over the quarter. Within the direct portfolio across the quarter six assets increased in value (the four industrial assets and two Czech retail warehouses), six fell in value (four offices, the Munich hotel and Polish shopping centre) and the remaining four assets remained static.

Fund Outlook

Renewed lock-downs and the more virulent strains of the coronavirus have led to reduced activity once again in the commercial real estate sectors that rely on consumer facing interaction – hotels, retail and leisure. Despite this, our view is that the year ahead will be made up of two halves with improvement materialising in the second half of the year as mass vaccinations ensue and restrictions are lifted and the occupier and investment markets start to get back to their normal functioning. Although we have not seen much in the way of distressed selling this could pick up as the year progresses and banks start to work through non-performing assets. We continue to expect the capital value declines that are already in train to continue as the year progresses. As these declines fall out of our three year projections for total returns, stronger returns are anticipated as we move into the second half of the year.

As a result of Covid-19, we continue to expect an acceleration of the longer term structural trends that were already underway in certain sectors. For example, more on-line activity is benefitting the industrial sector to the detriment of the retail sector. In the office sector, we are very selective in terms of asset attributes as the increase in home working will lead to less demand in the sector and more occupier desire for value-add attributes such as flexible workspace solutions and asset specific qualities such as good connectivity, a core location and positive ESG factors. We remain very cautious towards poorly located older assets that are most vulnerable to the changing dynamics in the sector. We expect there to be more opportunities to source attractively priced assets that can be repositioned or repurposed later on in 2021. Given the expected further price declines, we continue to adopt a conservative approach to risk in positioning and continue to focus on resilient income in our favoured sectors.

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Risk profile

Investors should be aware of the following risk factors:

- (a) Commercial property is less liquid than other asset classes such as bonds or equities. Selling property can be a lengthy process so investors in the fund should be aware that they may not be able to sell their investment when they want to.
- (b) Commercial property transaction charges are higher than those which apply in other asset classes. Investors should be aware that a high volume of transactions would have a material impact on fund returns.
- (c) Property valuation is a matter of judgement by an independent valuer and is therefore a matter of the valuer's opinion rather than fact.
- (d) The fund invests in equities and equity related securities. These are sensitive to variations in the stock markets which can be volatile and change substantially in short periods of time.
- (e) Dividend payment policies of the REITs in which the fund invests are not representative of the dividend payment policy of the fund.
- (f) The fund may invest in emerging market equities and/or bonds. Investing in emerging markets involves a greater risk of loss than investing in more developed markets due to, among other factors, greater political, tax, economic, foreign exchange, liquidity and regulatory risks.
- (g) The use of derivatives carries the risk of reduced liquidity, substantial loss and increased volatility in adverse market conditions, such as a failure amongst market participants. The use of derivatives may result in the fund being leveraged (where market exposure and thus the potential for loss by the fund exceeds the amount it has invested) and in these market conditions the effect of leverage will be to magnify losses. The fund does not make extensive use of derivatives.

The fund employs a single swinging pricing methodology to protect against the dilution impact of transaction costs. A change in the pricing basis will result in movement in the fund's published price. All investment involves risk. This fund offers no guarantee against loss or that the fund's objective will be attained.

Past performance is not a guide to future returns and future returns are not guaranteed. The price of assets and the income from them may go down as well as up and cannot be guaranteed; an investor may receive back less than their original investment.

Inflation reduces the buying power of your investment and income. The value of assets held in the fund may rise and fall as a result of exchange rate fluctuations.

The fund could lose money if an entity (counterparty) with which it does business becomes unwilling or unable to honour its obligations to the fund.

In extreme market conditions some securities may become hard to value or sell at a desired price. This could affect the fund's ability to meet redemptions in a timely manner.

The fund could lose money as the result of a failure or delay in operational processes and systems including but not limited to third party providers failing or going into administration.

Annual returns to 31 December 2020 (%)

	2020	2019	2018	2017	2016
ASI Global Real Estate Fund	-5.5	10.1	2.2	2.9	16.1

Source: Aberdeen Standard Investments

Fund performance is quoted net of Platform 1 fees.

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Important information

This document is intended for use by individuals who are familiar with investment terminology. To help you understand this fund and for a full explanation of specific risks and the overall risk profile of this fund and the shareclasses within it, please refer to the Key Investor Information Documents and Prospectus which are available on our website - www.aberdeenstandard.com.

Aberdeen Standard Investments has not considered the suitability of investment against your individual needs and risk tolerance. If you are in any doubt as to whether this fund is suitable for you, you should seek advice. An advisor is likely to charge for advice. We are unable to provide investment advice.

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