Aberdeen UK Property Fund
Quarterly Update - Q4 2020

Aberdeen Standard Investments

The Aberdeen UK Property 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.

Aberdeen UK Property Fund - Aberdeen Standard Fund Managers Limited is the Manager.

Aberdeen UK Property 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

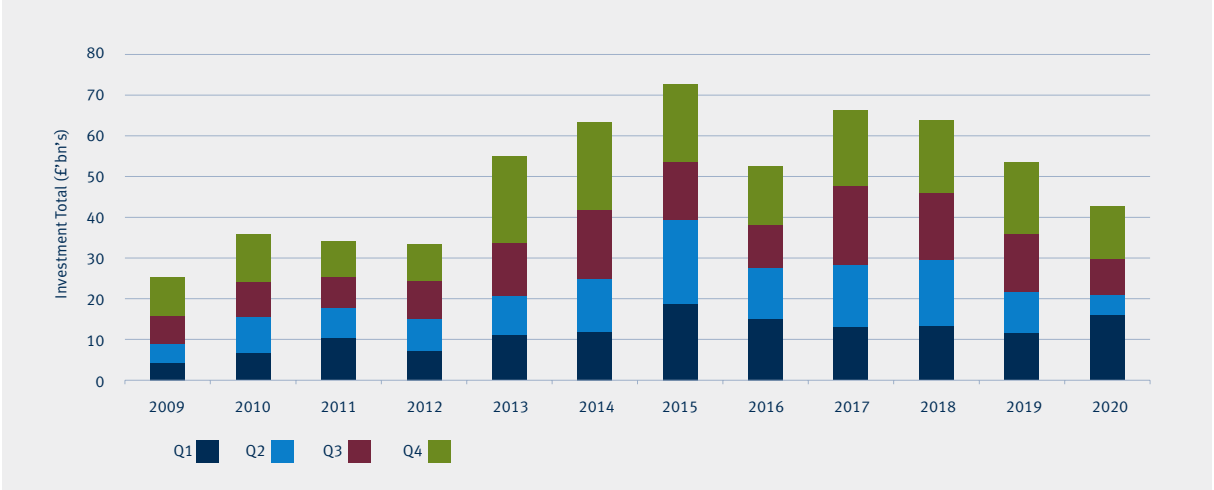
To generate income and some growth over the long term (5 years or more) by investing in UK commercial property. It is intended that the Company will be a PAIF at all times and, as such, its investment objective is to carry on property investment business and to manage cash raised for investment in the property investment business.

Performance Target: To meet the IA UK Direct Property Sector Average return (after charges) over the long term with lower volatility. 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.

Economic overview and property market

- After November's lockdown and the rapid tightening of restrictions in mid-December, we expect the UK economy to have contracted by 2-3% in the final quarter of 2020. A renewed lockdown to combat the highly transmissible new variant of Covid-19 is set to cause a further contraction in GDP in Q1 2021.
- Unfortunately, the rapid escalation of cases and hospitalisations since mid-December has necessitated another national lockdown akin to that of last spring, including school closures. Measures to combat the new variant – and evidence that other strains, such as that first detected in South Africa, may be even more infectious – are set to cause a further contraction in GDP in Q1 2021. With vaccines now being rolled out, it is a case of 'the darkest hour just before the dawn' and we continue to expect a strong rebound in the second half of the year as the vaccines start to deliver herd immunity.
- In mid-December, the furlough scheme was extended to the end of April, which gives greater time for business planning and decision-making around redundancies following the March budget. But it also means all the main business support measures are in place until at least the end of March, which should shield much of the economy from the effects of the renewed lockdown.
- Brexit negotiations went right to the wire but a chaotic no deal was averted. As we have previously flagged, ASI believes the very narrow deal agreed will be a drag on UK economic growth over the longer term.
- Trading for the consumer-facing retail, leisure and hospitality sectors remains challenging in the face of Covid-19 restrictions. The retail sector experienced a further blow in the final quarter of the year with both Debenhams and the Arcadia group entering into administration. More than 550 Debenhams and Arcadia fascia stores are set to close, removing the key anchor retailers from many towns.

Despite a noticeable pick up in investment volumes in the final quarter, 2020 marked the weakest year since 2012



Source: Property Data, January 2021

Aberdeen UK Property Fund
Quarterly Update - Q4 2020

- The Covid-19 impact on UK retail has not been homogenous across retail sub-sectors as illustrated by the resilience of supermarket trading. Kantar data showed that all UK supermarket groups benefitted from unprecedented Christmas demand in 2020. Take home grocery sales rose 11.4% year-on-year over the 12 weeks to December 27, despite higher online penetration than the previous year.
- With a sizeable increase in demand, 2020 broke all previous records for the UK logistics sector, with occupiers signing up to 50.1 m sq ft of new space. The sector has been a key beneficiary of shuttered shops and the marked acceleration in online retailing. Although Amazon was by far the largest single occupier, accounting for a quarter of all leased space during 2020, take-up would have still broken new records even if Amazon was removed from the numbers.
- Both the hierarchy and quantum of our new forecasts remain largely unchanged. We are forecasting further capital declines across discretionary retail in 2021, with greater declines in rental values. The renewed lockdown, which is likely to last for most of Q1, will put further pressure on retailers, leisure operators and hospitality providers, reinforcing that view.
- Conversely, industrials are set to be the best performing sector in 2021 for a fifth successive year on the back of continued strong sentiment towards the positive structural drivers of the occupier market. In our view, those drivers are strongest for logistics units in urban areas.
- In offices, the occupational fundamentals have weakened further; availability has increased notably without any meaningful impact on rents thus far. We do not believe that situation is sustainable and are forecasting rental declines in central London this year, with more modest declines in the main regional markets. We expect quality buildings in strong locations to hold up better through this adjustment period.
- At close to £12.8 billion, the fourth quarter saw a noticeable pick up in investment volumes when compared with the previous two quarters. Despite the occupational uncertainties, offices accounted for over 35% of total investment. Positive industrial sentiment resulted in the sector accounting for over 30% of total investment volumes in the final quarter of the year.

Investment outlook

- A renewed sense of optimism moving into 2021, with a no-deal Brexit averted, is likely to be tempered, at least initially, by the latest national lockdown as investors assess the potential damage to occupier markets. With liquidity likely to be impaired in the first quarter, 2021 looks set to be a year of two halves for the investment market. Provided vaccinations can be rolled out at sufficient scale in the first half of the year to materially supress the virus, we expect to see a recovery in activity in the second half 2021.
- Multiple lockdowns have reinforced existing structural changes and introduced new ones. While the investment market is rightly demanding ever higher risk premia for most discretionary retail, there are parts of the market where investors appear disinclined to price in any material structural change. Where there is greater liquidity and significant variation in views on the occupational impact of structural change is where the greatest opportunities may lie.
- Investment strategies will continue to favour sectors with more defensive characteristics. Fundamentally, we prefer investing in areas where the structural drivers of demand are positively impacted by or largely insulated from the ongoing pandemic, including logistics and supermarkets.

Aberdeen UK Property Fund
Quarterly Update - Q4 2020

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Fund positioning

Top 10 holdings	Value range (£m)
Motel One, 24 Minories, LONDON EC3	50m - 75m
180 Stratford High Street, LONDON E15	50m - 75m
Sunlight House, Quay Street, MANCHESTER	50m - 75m
A1 Shopping Park, London Road, BIGGLESWADE	50m - 75m
The Moor, Charter Row, SHEFFIELD	50m - 75m
G&V, The Bridge, EDINBURGH	25m - 50m
Windsor Yards, WINDSOR	25m - 50m
Boulevard Industry Park, Renaissance Way, SPEKE	25m - 50m
Triple Two Centre, Croydon Road, BECKENHAM	25m - 50m
Axis Park, Manasty Road, PETERBOROUGH	25m - 50m

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

Top 10 tenants	% Contracted Rent
B&Q Ltd	7.24
Radisson Collection Hotel Edinburgh Limited	6.60
Motel One (UK) Limited	6.59
Booking.com Transport Ltd	4.76
Manchester Airport Plc	3.21
Waitrose Limited	3.01
Decoma (UK) Limited	2.54
Secretary of State for Community and Local Government	2.22
Travelodge Hotels Limited	2.03
Marks and Spencer Plc	1.90

Source: Aberdeen Standard Investments, 31 December 2020.

Fund facts

Fund size	£799.7m
Average lot size	£28.5m
Average lease length	7.4 years
Number of properties	21
Number of tenancies	267
Historic yield	2.43%*
Unencumbered cash	24.29%**
Vacancy rate	12.43%

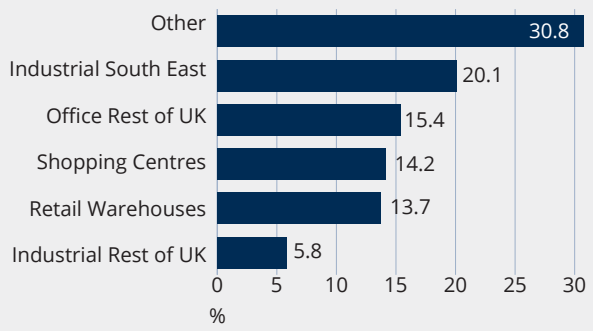
Source: Aberdeen Standard Investments, 31 December 2020.
*Yield at 31/12/20. Yields are historic based on the preceding 12 months' distributions as a percentage of the midmarket unit/share price at date shown. Yields will vary, do not include any preliminary charges and investors may be subject to tax on distributions. Based on institutional income shareclass.
**The unencumbered cash figure includes cash or cash equivalents plus any short term assets and liabilities within the fund less any future committed capital expenditures.

Lease expiry profile	% Contracted Rent
Less than 5 years	39.6
Between 6 and 10 years	32.5
Between 11 and 15 years	12.6
More than 15 years	15.3

Performance - % growth	3 mths	6 mths	1 yr	3 yrs	5 yrs
Aberdeen UK Property	-2.45	-3.73	-9.10	-4.44	-2.56
IA UK Direct Property*	-0.49	-0.89	-4.62	-1.13	0.15

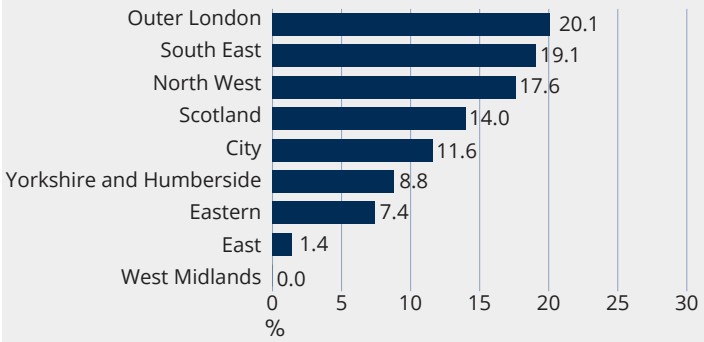
Source: Aberdeen Standard Investments, 31 December 2020.
Fund performance net of institutional fees.
*Peer Group includes both master and feeder funds in the IA UK Direct Property Peer group.
Returns over 1 year are annualised.

Sector allocation



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

Geographical breakdown



Source: Aberdeen Standard Investments, 31 December 2020.

Aberdeen UK Property Fund
Quarterly Update - Q4 2020

Portfolio update
Transaction and Asset Management Activity

The Fund's Standing Independent Valuers removed the material valuation uncertainty clauses from all properties held by the Fund during September and following careful consideration of a number of factors, including fund and market liquidity, the Fund lifted the temporary suspension and resumed dealing on 16th November 2020 providing investors access to their positions significantly ahead of the majority of our peers.

Over the period seven asset sales completed realising a total of c.£98.9m. Four sales were completed from the retail sector (40% by value); one industrial (11%) and two from the alternatives sector (49%) including the largest single sale over the period being the sale of a student accommodation complex at Slade Park, Oxford.

A number of significant asset management initiatives concluded including at Axis Park, Peterborough where three year lease extension were completed with Amazon across three units. The units provide 30,178 sq ft of accommodation and the rent agreed was an 8% increase on the previous passing rent.

In the retail sector we completed two significant lease re-gears with B&Q, one of the Fund's largest tenant, extending their occupation at the Fund's retail park assets in Cambridge and Inverness to a total of 10 years and 6 ½ years respectively.

And finally at Sunlight House in Manchester, we completed a 15 year lease with Schofield's Bar at an annual rent of £42,000.

We continue to proactively engage with our tenants and where appropriate seek a collaborative approach to managing through the ongoing crisis. We believe this approach will be beneficial to investors in the medium term with financially sound businesses continuing to operate and occupy premises once the lockdown position eases.

Performance review

The repositioning of the Fund through implementation of the strategic plan and asset management initiatives continues. The Fund's retail weighting over the quarter has now reduced from 31.6% to 27.9% and is broadly in line with the benchmark. The Fund underperformed the MSCI UK Daily Traded APUTs and PAIFs Quarterly Property Index (direct property comparison) for Q3 2020 recording a total return of -1.12% against a benchmark of -0.07%. MSCI Benchmark Information for Q4 2020 has not yet been released. Q4 has seen a continued polarisation of performance across the sectors with retail (excluding supermarkets) and leisure continuing to suffer capital decline compared to capital growth in the industrial sector.

Outlook

Our forecasts remain largely unchanged for 2021 with further capital declines expected in consumer facing sectors, as investors shy away from risk assets where there is uncertainty over rent collection and tenant business resilience. We have revised our outlook for the office sector as we anticipate the majority of offices now to remain unoccupied with the UK back in the most stringent lockdown since March 2020.

We continue to focus on income and tenant engagement as businesses continue to adjust to the current environment. The over-arching Fund Strategy remains unchanged and we remain focused on reducing risk within the property portfolio, whilst also targeting an enhanced exposure to liquid assets. We will continually review and implement enhancements as appropriate to best protect the interests of our customers and investors as matters evolve.

Aberdeen UK Property Fund
Quarterly Update - Q4 2020

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 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
Aberdeen UK Property	-9.10	-8.04	4.36	6.72	-5.66
IA UK Direct Property*	-4.62	-1.11	3.03	7.48	-1.25

Source: Aberdeen Standard Investments, 31 December 2020.
Fund returns net of institutional fees.
*Peer Group includes both master and feeder funds in the IA UK Direct Property Peer group

Aberdeen UK Property Fund
Quarterly Update - Q4 2020

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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