This information is for professional clients and investment professionals only and should not be relied upon by retail investors.
Past performance is not a guide to the future.

Aberdeen UK Property Fund

Quarterly Update - Q4 2019

AberdeenStandard 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.

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

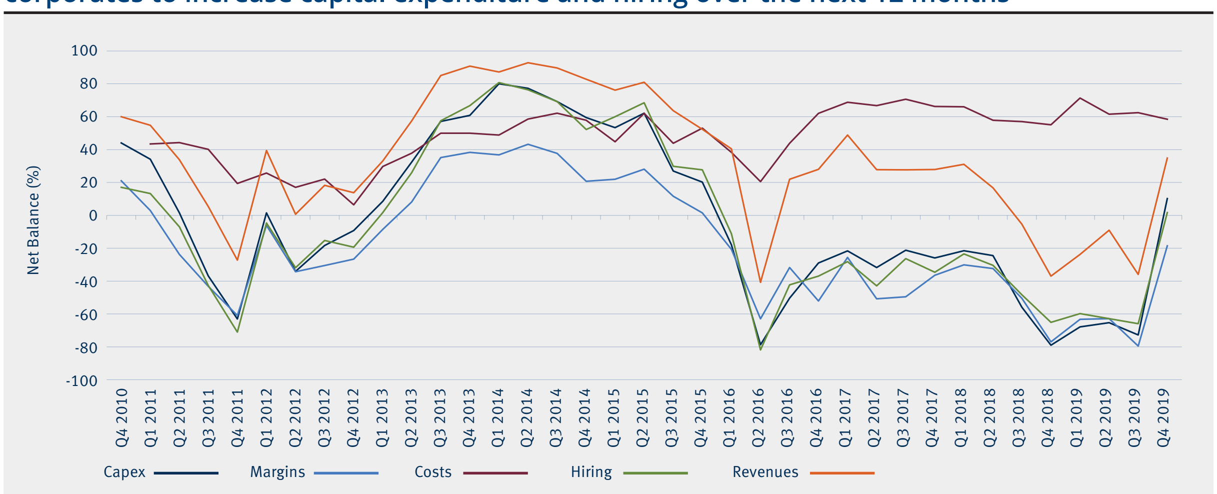
- While there is low conviction in its base case, the ASI Research Institute (ASIRI) expects a sluggish, but positive growth outlook, having revised upwards its expectations for GDP growth in 2020 to 1.4%. However, risks remain of a "cliff edge" Brexit at the end of the transition period in December 2020. Fiscal stimulus is expected to come through and steadily feed into growth, with a boost to consumer spending. However, as the UK looks set to drift further from EU economic and regulatory alignment, we do not envisage a material pick-up in investment.

- Occupational markets have, so far, largely been unfazed by prevailing uncertainty and a lack of clarity on the UK's future trading relationships. Take-up in the office sector remains strong, while industrials continue to report healthy take-up, especially for well-connected areas in core markets. Retail, however, continues to suffer severe structural headwinds.

- The fourth quarter saw the highest quarterly volume of transactions in 2019, with the office and alternative sectors together contributing to over two-thirds of the £12.7bn total quarterly volume. Despite a number of large Central London office deals, however, the pool of overseas buyers has been shrinking. Some confidence may return in the short term with a Labour government avoided and, in the listed space, share prices have moved very aggressively in response to October's value rotation and an encouraging December 2019 election result for real estate.

- ASIRI has revised up its GDP growth forecasts for the UK economy and, as such, we have made some modest upward revisions to our numbers. However, our real estate forecasts still sit towards the lower end of the market consensus at less than 2% per annum over the period 2020-22. Meanwhile, as we enter a critical period for Brexit negotiations, we see very little justification to be taking on additional risk at this stage in the UK real estate cycle, with pricing of the market well ahead of its long-term worth. As we move into 2020, there remains considerable weight of money targeting assets in the alternative sector, offering stable, low risk cash flows. This is likely to put further downward pressure on yields in that space, which is consistent with our view of pricing and approach to risk.

Noticeable rebound in market optimism following the election outcome – CFO's expect UK corporates to increase capital expenditure and hiring over the next 12 months



Source: Refinitiv, Deloitte CFO Survey, Aberdeen Standard Investments, January 2020

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Fund positioning

Top 10 holdings	% Direct Property
The Moor, Charter Row, Sheffield	7.6
Motel One, 24 Minories, London	6.8
A1 Shopping Park, London Road, Biggleswade	6.6
Hermiston Gait, Cultins Road, Edinburgh	6.5
180 Stratford High Street, London	5.9
Broadwalk Centre, Station Road, Edgeware	5.8
Boulevard Industry Park, Renaissance Way, Speke	5.6
Windsor Yards, Windsor	5.5
G&V, The Bridge, Edinburgh	5.3
Sunlight House, Quay Street, Manchester	5.2

Source: Aberdeen Standard Investments, 31 December 2019
Figures exc Cash.

Top 10 tenants	% Contracted Rent
B&Q plc	6.9
Motel One (UK) Limited	4.1
Sytner Properties Limited	3.4
Radisson Collection Hotel Edinburgh Limited	3.0
J Sainsbury plc	2.9
Tesco Stores Limited	2.8
Bank of Scotland plc	2.4
TravelJigsaw Limited t/a rentalcars.com	2.1
Matalan Retail Limited	1.8
Manchester Airport Plc	1.7

Source: Aberdeen Standard Investments, 31 December 2019

Fund facts

Fund size	£1,161.5m
Average lot size	£31.5m
Average lease length	7.6 years
Number of properties	34
Number of tenancies	372
Historic yield	2.9%*
Net current assets	6.4%
Vacancy rate	5.75%

Source: Aberdeen Standard Investments, 31 December 2019
*Yield at 31/12/19. 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.

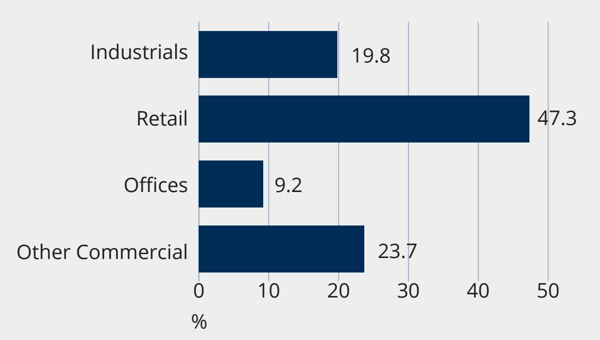
Lease expiry profile	% Contracted Rent
Less than 5 years	36.0
Between 6 and 10 years	31.8
Between 11 and 15 years	16.2
More than 15 years	16.0

Performance - % growth

	3 mths	6 mths	1 yr	3 yrs*	5 yrs*
Aberdeen UK Property	-3.7	-5.3	-8.0	0.8	0.9
IA UK Direct Property	-0.9	-1.2	-1.1	2.7	2.8

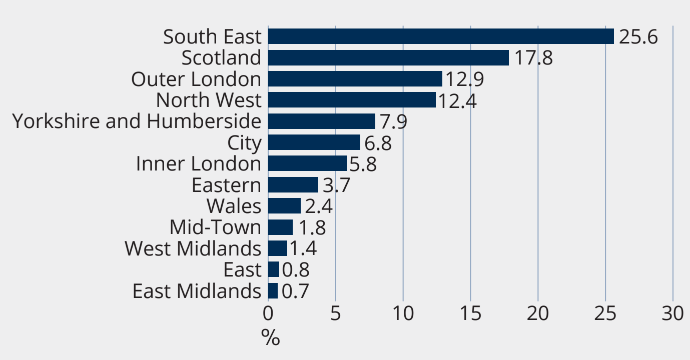
Source: Aberdeen Standard Investments, 31 December 2019
Data to end June, Fund performance net of institutional fees.
*Returns are annualised

Sector allocation



Source: Aberdeen Standard Investments, 31 December 2019. Figures ex Cash.

Geographical breakdown



Source: Aberdeen Standard Investments, 31 December 2019. Figures ex Cash.

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Portfolio update
Transaction and Asset Management Activity

During the reporting period the Fund disposed of 7 assets totalling over £130m. The sales reduced risk in the portfolio by reducing the Fund's retail exposure and removing both void and short term income with occupational risk. The sales included retail assets in Bristol, Winchester, Leeds, Biggleswade and Hove reducing the Fund's exposure to the sector. The remaining transactions were two industrial properties in Northampton and Enfield which had short term income with occupational risk.

As at the end of the quarter, the Fund had a further £165m of retail assets under offer as we continue to reduce exposure to the sector.

Ongoing asset management activity surrounding the existing portfolio remains a key focus as we seek to implement initiatives aimed at income and value enhancement.

At the Fund's industrial estate in Peterborough the team completed another letting deal, bringing the total for the year up to seven. Unit 19D comprising 2,768 sq ft was let to EF Engineering, an existing tenant on the estate, at £7.50 psf in line with the asset business plan. This is an expansion of the tenants' occupation of the estate as earlier in the year the team renewed their existing lease for an additional 5 year term.

At the Fund's office building in central Manchester the team have commenced works to convert unused car parking spaces into a shower block and changing facilities for all the office tenants, bring the building into line with current British Council for Offices standards, enhancing letting prospects and rental potential.

And in Edgware, at the Fund's shopping centre, the team agreed a deal with Amazon to provide a location for their new "Treasure Truck" concept. Amazon collects data through their phone app and offers local customers the opportunity to benefit from tailored offers and promotions and pick them up on the same day from their branded trucks parked in the shopping centre car park.

As at 31st December 2019 the unencumbered cash was 6.39% of NAV.

Properties in focus
Disposal
Brislington Retail Park, Bristol

- Sold for £21.5m reflecting a net initial yield of 9.42%
- 150,472 sq ft scheme comprising 11 retail units and a restaurant pod on an 11 acre site
- Tenants include B&M, TK Maxx and Home Bargains

Disposal
Moorside Road Retail Park, Winchester

- Sold for £9.95m reflecting a net initial yield of 7.04% and an equivalent yield of 6.9%
- 33,449 sq ft retail park let to Halfords, Pets at Home, DSG and Costa

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Performance review

The Fund underperformed the IA UK Direct Property return over Q4 2019 returning -3.7% against a sector average of -0.9%. The Fund underperformed the MSCI UK Daily Traded Authorised Property Unit Trust ('APUT') / Property Authorised Investment Fund ('PAIF') Benchmark (Direct Property) for Q4 2019 recording a Total Return of -1.7% against the MSCI benchmark of -1.3%.

The Fund's alternative assets provided the strongest performance over the reporting period with a capital return at direct property level of 1.4%. The industrial assets continued to provide the strong returns in line with the market with valuations up 0.5% on the quarter. The retail sector as a whole however continues to create a drag on performance as the sector addresses structural changes.

(*1) Source: Aberdeen Standard Investments/Morningstar. Fund returns net of institutional fees.

Forecasts & outlook

- Returns from UK commercial real estate continued to slow over the period. Industrial and long income type sectors continue to generate the strongest returns while the retail sector continued to weaken with capital and rental value growth trending negative.
- We believe that UK property continues to provide a supportive role as part of a balance portfolio although the returns from the UK commercial real estate market are expected to continue to moderate. Given the backdrop of continuing heightened macro uncertainty, however, we expect to see more polarised performance between prime and secondary assets and across the sectors.
- Asset specifics are key however the Fund maintains a focus toward prime / core assets and reducing its exposure to the retail sector.
- We will continue to implement asset management initiatives across the portfolio aimed towards maintaining income and capital preservation.

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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 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 2019 (%)

	2019	2018	2017	2016	2015
Aberdeen UK Property	-8.0	4.4	6.7	-5.7	8.5
IA UK Direct Property	-1.1	3.1	7.5	-1.2	7.4

Source: Aberdeen Standard Investments, 31 December 2019
Fund returns net of institutional 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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www.aberdeenstandard.com

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