

September 2019

# InFocus

## Aberdeen Standard European Balanced Property Fund<sup>1</sup>

### Key features

Track record of  
outperformance

Invests in  
high-quality real  
estate in Europe

Attractive  
income return

ESG five-star  
rated fund

Global reach but  
local expertise



**Gert-Jan Kapiteyn**  
Fund Manager

The Aberdeen Standard European Balanced Property Fund is an open-ended, core fund designed for institutional investors who want to invest in retail, office and industrial/logistics properties in the Eurozone. The Fund is focused on low risk, income-producing real estate assets with income growth potential.

The Fund invests in properties that we believe will deliver the Fund's long-term return target, while avoiding excessive risk. The Fund aims for a long-term absolute return target comprising a cash dividend return target of 4.5% per year and a total return target of 6.5% per year. The MSCI/IPD Pan-European Property Funds Index (PEPFI) is used as a performance comparator.

In this InFocus, fund manager Gert-Jan Kapiteyn answers key questions around the rationale behind the Fund, the benefits it offers and where it invests.

#### Q. Why invest in European real estate?

A. The diversity of markets in Europe has typically delivered a wide spread of returns, driven by significant social, economic, political, regulatory, legal and financial disparities. The region offers a broad range of opportunities, and potential for strong performance if the right assets are selected at the appropriate time. We believe that good stock selection skills and an ability to add value through active management can deliver strong performance even in weak economies and in difficult markets.

#### Q. What are the advantages of investing in this fund?

A. The Fund is well diversified across sectors and countries.

The Fund has a strong track record, having outperformed the IPD PEPFI index for balanced funds by 1.9% per annum since inception in 2006.<sup>2</sup>

The Fund has also delivered a consistently higher income return every year since inception. The average net income return over the five-year period from 2014-2018 was 4.4% for the Fund and just 2.6% for the IPD benchmark.

The Fund is low risk, with low gearing of 13%. It has a low vacancy rate of 1.6%<sup>1</sup> and a long weighted average unexpired lease term (WAULT) of 8.9 years.<sup>2</sup>

We have an established fund management team in Europe who manages the Fund with support from a wider team of over 270 real estate professionals located across the globe. They have a strong regional network of contacts and an 'on-the-ground' understanding of local market conditions. Our approach is global, but it is implemented locally.

#### Q. Where do you see opportunities in the European market?

A. We assess assets on a case-by-case basis given the importance of stock picking and the wide divergence of asset returns at a national level.

In terms of sectors, high-quality logistics assets and 'last mile' facilities in supply constrained urban areas are attractive.

In the office sector, we like flexible assets that are suitable for multi-letting. We like assets that are located in city centre locations in 'winning' cities.

The weighting in the retail sector is being reduced, but we think there are opportunities for secure income in supermarkets.

Retail parks with a food anchor and fashion offer benefit from more affordable rents and more efficiently sized units than city centre retail. And they are more suitable for 'click and collect'.

<sup>1</sup> Previously the Aberdeen European Balanced Property Fund.

<sup>2</sup> Data as at 30 June 2019.

**Q. How do you implement environmental, social and governance factors into real estate?**

A. We believe the opportunities presented by environmental, social and governance (ESG) factors can deliver positive, long-term results for our clients, while also minimising risk exposure. As such, we integrate ESG factors into our investment decision making and governance procedures. This enables us to maximise the performance of our assets, to generate socio-economic benefits and to reduce exposure to environmental risks. Our approach is informed by a number of strategic priorities including:

- Occupier satisfaction – health, wellbeing and productivity
- Resource scarcity – material and water efficiency
- Climate change – low-carbon generation, energy efficiency, and resilience to change
- Socio-economic benefit – measuring the positive impact of our investments

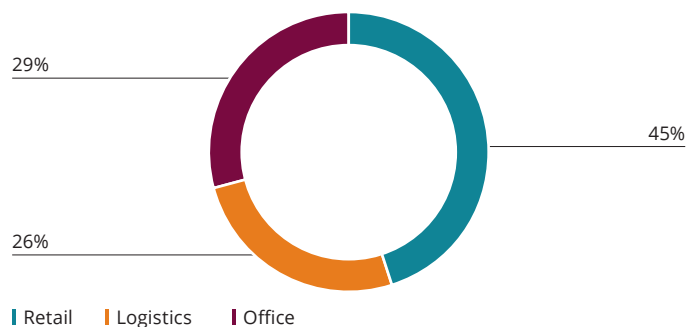
The Fund has a five-star (out of five) rating from the Global Real Estate Sustainability Benchmark agency.

**Q What key risk factors do you consider?**

A. We manage risk; we can't manage market returns. We do this by maintaining low levels of debt in the Fund, which helps to minimise volatility. We are also mindful of obsolescence in the properties we own. This can be general wear and tear over time, or changes to building specifications as a result of new technology that could render a building to be no longer fit for purpose. Modern and efficient buildings tend to attract the best clients, which means that rental income is more secure. Other risk factors that we monitor include liquidity, location, tenant failure, rental decline, tax or regulatory changes, and lease expiry patterns.

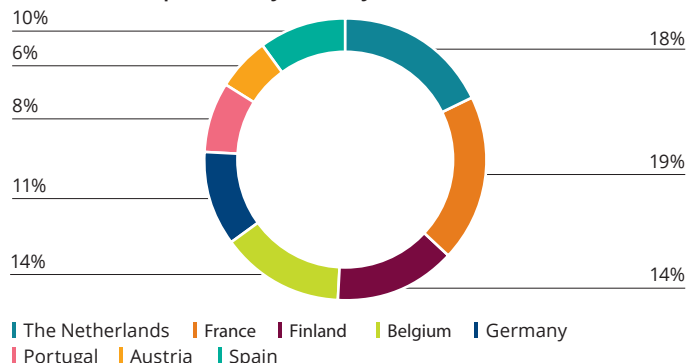
**“This is a well-diversified fund that is invested across sectors and countries, with stock selection made on a bottom-up basis.”**

**Portfolio composition by sector (% of value Q2 2019)**



Source: Aberdeen Standard Investments, 30 June 2019.

**Portfolio composition by country (% of value Q2 2019)**



Source: Aberdeen Standard Investments, 30 June 2019.

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