Aberdeen European Balanced Property Fund

Quarter 4, 2018

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

A core fund designed to invest in a balanced property portfolio across the Eurozone.

Investment objective and strategy

The Aberdeen European Balanced Property Fund (the "**Fund**") is an open-ended, core fund designed for institutional investors with a strategy to invest in retail, office and industrial/logistics properties in the Eurozone. The Fund's strategy is to screen, invest in, and manage individual assets which we believe will provide the greatest opportunity to deliver the Fund's long-term return target, whilst avoiding excessive risk. The Fund will not engage in speculative property development and will pursue active management during the holding period in order to enhance performance in a controlled fashion. The Fund pursues 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's IPD Pan-European Property Funds Index (PEPFI) is used as a performance comparator.

Quarterly commentary

Market commentary

Despite the clear deterioration in the economic landscape,leasing conditions remain buoyant in the commercial real estate market. Much of this owes to the fact that so far the pressures have come from external factors and not from weaker domestic demand.

- In offices, leasing activity fell by around 5% in 2018, overall. But the activity remains close to the record highs set this cycle, totalling more than 10 million square metres over the year. This has pushed the vacancy rate down to 7.4%, on aggregate – a record low. In some submarkets, vacancy is now negligible, such as the central business district (CBD) in Paris (1.7%), Amsterdam Zuid (2%), Munich and Berlin (both 2.1%). This is sustaining competition for space among tenants and squeezing take-up into secondary locations, either as a result of price pressures given high rents or because of a lack of options. The rise of flexible office operators is also eroding headline levels of supply, albeit artificially in some cases.
- As we enter 2019, the one notable change is the level of construction activity. While it is still modest in an historic context, and a large proportion is also pre-let, an increase has clearly been detected in Amsterdam, Berlin and Helsinki.
- Despite the vastly improved labour market conditions and retail sales growth of 2% pa in the EU, retail segments continue to produce subdued performance, stemming from the negative impact of ecommerce on in-store sales. Data from CBRE highlights that values in European retail increased by just 2.5% in 2018, compared with 11.4% in industrials. Logistics remains the star sector, assisted by a growing economy and the evolution of online retail, which is sustaining annual take-up volumes above 10 million square metres. Ecommerce fulfilment now represents roughly 20% of total take-up per annum, while contract logistics operators are also reporting a growing demand for their services from online retail activity. Logistics vacancy rates are falling across Europe; for prime space, they are around 5% on an aggregate level. Speculative development has increased but, on the whole, it is focused in areas where demand is clearly strong enough to support it.
- Rental growth continues to exceed expectations in the office sector. But this also signals the ever-more-advanced phase of the cycle, which is encouraging further development. Logistics rents have been relatively flat as developers have been happy to concede lower rents in favour of securing longer tenancies. That said, there are still some 'hotspots emerging. Retail rents are now broadly considered to be stable in the best locations and best units, while evidence of a decline in poorly located or poorly trading retail is increasingly evident.

Important information overleaf

Key information

Legal structure	SICAV-FIS
Domicile	Luxembourg
Risk style	Core
Term	Open ended, infinite lifetime
Investment universe	Eurozone
Target size (GAV)	EUR 2 billion (initial target)
Current size (GAV)	EUR 958 million
Minimum commitment	EUR 3 million
Target return	Income return: 4.5% per annum Total return: 6.5% per annum
Currency	EUR
Leverage	Maximum LTV of 40% of GAV; Current LTV of 10% of GAV; Long-term average LTV of 25% of GAV
Liquidity	Redemption requests accepted quarterly
NAV reporting frequency	Quarterly
External asset valuation	Quarterly by property appraisers. Valuation advisors rotated every three years
Launch	Q3 2006
Annual management fee	Fund management fee of 90bps of NAV for commitments up to EUR 25 million; 80bps for commitments of EUR 25 - 50 million; 70bps for commitments > EUR 50 million
Other fees	Redemption fees depending on holding period applicable to class B shares; 4% redemption fee on NAV in the first two years decreasing to 0.5% after seven years
Total Expense Ratio Q4 2018	GAV: 0.9% NAV: 1.2%

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 fourth quarter of 2018, the Fund agreed to acquire two assets. The first was a distribution warehouse (forward funding project) in Venray, the Netherlands. This distribution warehouse comprises of a total GLA of 28,000 square metres for a total investment of EUR 17.05 million. The second was a retail asset in Cormeilles-en-Parisis, France. This retail asset is located in the Paris metropolitan area. The asset comprises of 13 tenants and a total GLA of 20,000 square metres. Key tenants include the DIY chain Castorama and the supermarket chain Lidl. The net acquisition price amounts to EUR 53.0 million.

In the fourth quarter of 2018, the Fund disposed of a logistics asset in Bleiswijk, the Netherlands, for a net price of EUR 7.8 million; this was 23% above the Q3 2018 valuation. The property has been facing a vacancy issue for a while since the sole tenant Koninklijke PostNL left the property in December 2017, the property has since been fully leased.

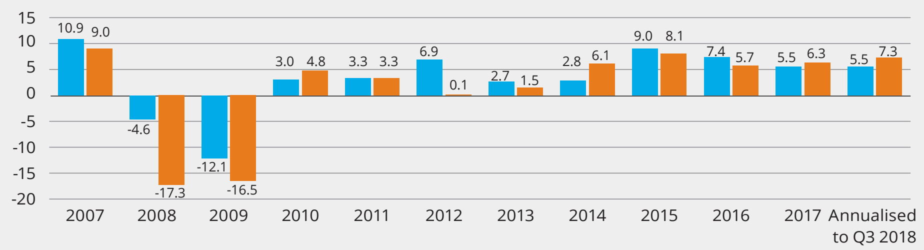
Portfolio management

Local management expertise and resources are among our key strengths in Europe. Having native speakers on the ground, with local expertise and networks, is essential for maximising portfolio returns and optimising risk control. The current focus is on maintaining and improving the already high occupancy rate of 98.3% as at 31 December 2018.

Performance summary

The fund has outperformed the IPD PEPFI benchmark by an average of 2.0% per annum since inception.

Total return per annum in %

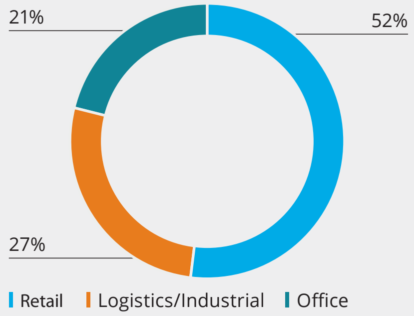


Source: IPD, Aberdeen Standard Investments, December 2018.
Past performance is not a guide to future results. Q4 2018 figures for the Fund's performance comparator, IPD PEPFI for balanced Funds, are not available until March 2019.

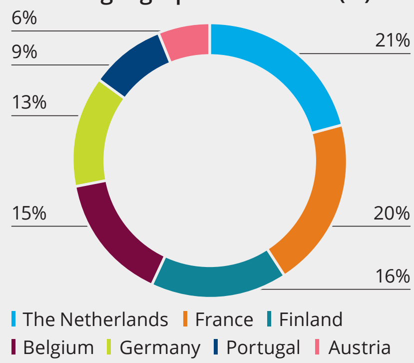
Distribution yield

	2012	2013	2014	2015	2016	2017	Annualised to Q3 2018
Aberdeen European Balanced Property Fund	4.8	5.4	5.1	4.6	4.1	4.2	4.1
IPD PEPFI	3.9	3.9	3.6	2.4	2.7	2.1	2.3

Current sector allocation (%)

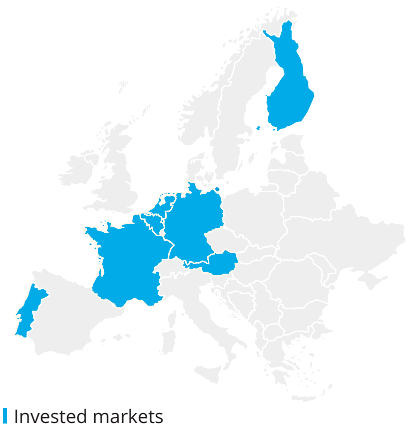


Current geographic allocation (%)



Figures may not always sum to 100% due to rounding. Q4 2018 allocation excludes Den Bosch retail (sold in Jan 19) and includes Eindhoven office acquired in (Jan 19)

Investment universe



All figures (unless otherwise indicated) are as at 31 December 2018.

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Important information

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