

February 2019

# InFocus

## Aberdeen European Balanced Property Fund

### Key features

Invests in high-quality real estate in Europe

Potential for an attractive income return

Green-star-rated fund

Global reach but local expertise



**Gert-Jan Kapiteyn**  
Fund Manager

The Aberdeen 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: This is a well-diversified fund that is invested across sectors and countries, with stock selection made on a bottom-up basis. The Fund has a low vacancy rate of 1.7%<sup>1</sup> and a weighted average unexpired lease term (WAULT) of 9.5 years<sup>1</sup>.

An established fund management team in Europe manages the Fund with support from a wider team of over 270<sup>1</sup> 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 do not make broad country or sector generalisations as every property is different. 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 multi-let industrial estates in supply constrained urban areas remain attractive. We are also keen on supermarkets with long-income streams, and dominant, well-anchored shopping centres. Retail parks with a food anchor and fashion offer benefit from more affordable rents and more efficiently sized units than city centre retail. Retail parks can also offer click-and-collect facilities, helped by their accessibility and free and plentiful parking.

#### 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

<sup>1</sup> Source: Aberdeen Standard Investment, as at 31 December 2018.

<sup>2</sup> Source: Aberdeen Standard Investments, 4.7% per annum over the last five years against the IPD/PEPFI Balanced Funds Index of 2.9%, as at 31 December 2017).

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 four-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.”**

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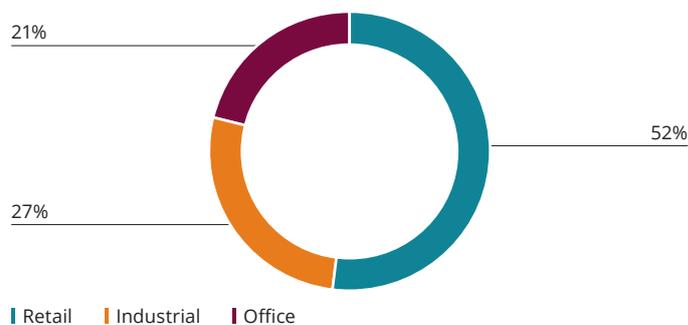
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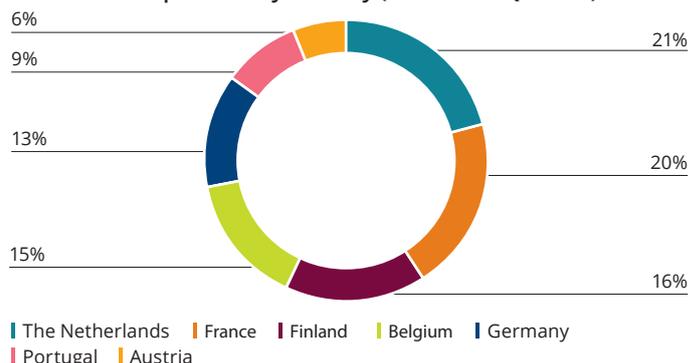
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#### Portfolio composition by sector (% of value Q4 2018)



Source: Aberdeen Standard Investments, 31 December 2018.

#### Portfolio composition by country (% of value Q4 2018)



Source: Aberdeen Standard Investments, 31 December 2018.

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