

# Aberdeen Realty Income & Growth Fund<sup>1</sup>

## Fund performance

The Aberdeen Realty Income & Growth Fund (Institutional Class shares net of fees)<sup>2</sup> returned 1.66% for the second quarter of 2019, outperforming the 0.64% return of its benchmark, the MSCI US REIT Index.<sup>3</sup>

Stock selection in the residential and healthcare sectors benefited the Fund's performance relative to the benchmark during the quarter. From a sector-allocation perspective, an overweight to the industrial sector and an underweight position in regional malls boosted Fund performance. The largest individual contributors to Fund performance were overweight positions in Prologis, Inc. and Terreno Realty Corp, along with an underweight allocation to Simon Property Group. Industrial REITs Prologis and Terreno both benefited from stronger-than-expected demand growth, spurring yet another round of earnings guidance raises for the group. Additionally, the \$18 billion acquisition of a privately owned industrial portfolio by Blackstone reiterated the private market bid for industrial assets, and provided an indication of better-than-expect-

ed asset prices. We maintained an underweight position in Simon Property Group given our negative view toward the regional mall sector. This benefited Fund performance, as the company's shares significantly lagged the benchmark over the quarter due to continued pressures from store closings by retailers.

Conversely, the Fund's holdings in the office sector and an underweight allocation to the self-storage sector were the only meaningful detractors from performance relative to the MSCI US REIT Index for the period. The primary individual stock detractors from Fund performance included overweight positions relative to the benchmark in Highwoods Properties and Brandywine Realty Trust, along with an underweight position in Public Storage. Highwoods Properties underperformed due to negative earnings revisions that became necessary when a full building tenant unexpectedly went bankrupt and vacated their space. Brandywine Realty Trust underperformed due to the general negative sentiment that surrounded the office sector as a whole

throughout the quarter. Public Storage, which had underperformed the benchmark significantly in the first quarter, rebounded in the second quarter after it announced earnings that were better than expected.

## Fund activity

We made several adjustments to the Fund during the second quarter. We maintained our negative view toward regional malls, stemming from our belief that the elevated level of store closings will continue to plague landlords and require elevated levels of capital expenditures (capex) to re-tenant space, which could pressure the balance sheets of weaker mall landlords. Against this backdrop, we reduced the Fund's positions in Macerich Company and Simon Property Group. This move increased the size of the underweight toward the sector. We also exited our position in Regency Centers, as we think the growth of online grocery delivery could put pressure on grocery anchored shopping centers in the future. Proceeds from these sales were reinvested into a new holding, Site Centers. While we maintain our negative view toward the retail space in

<sup>1</sup> The Fund acquired all of the assets and liabilities of the Alpine Realty Income & Growth Fund (the "Predecessor Fund"), a series of Alpine Equity Trust, in connection with a reorganization that occurred as of the close of business on May 4, 2018. Aberdeen Asset Management Inc. became the investment adviser effective upon the closing of the reorganization. The Predecessor Fund was managed by a different investment adviser. The returns presented for the Fund before May 5, 2018, reflect the performance of the Predecessor Fund.

<sup>2</sup> The performance quoted represents past performance, which does not guarantee future results. Class A shares have a 0.25% 12b-1 fee. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the Fund may be lower or higher than the performance quoted. Performance data current to the most recent month-end may be obtained by calling 800-387-6977 or visiting [aberdeen-asset.us](http://aberdeen-asset.us).

<sup>3</sup> The MSCI US REIT Index is a market capitalization-weighted index which tracks the performance of U.S. equity real estate investment trusts. Indexes are unmanaged and have been provided for comparison purposes only. No fees or expenses are reflected. You cannot invest directly in an index.

general, we felt the valuation discount in the company represented an attractive risk/reward opportunity. We also added to existing Fund positions in Invitation Homes and Brixmor Group.

#### Market review

The U.S. REIT market posted modestly positive returns in the second quarter, underperforming the broader equity market, but once again outperforming the global real estate index. Global interest rates continued to decline as more central banks around the globe indicated that they were inclined to ease monetary policy in light of economic uncertainty and the potential negative impact of a trade war. Despite these concerns on the economic front, we are not seeing any changes in real estate fundamentals. Supply and demand remain

balanced for most property types; landlords are enjoying modest rental increases and asset prices, supported by low interest rates remaining at or near-peak valuations.

In terms of subsector performance, investors were drawn to those segments of the market that have the best underlying growth prospects. Single family rental REITs were the top performing sector for the quarter, with a total return of almost 10%. Demand for affordable housing remains strong, and commentary from management teams pointed to fewer expense surprises this year relative to last year. This renewed investor confidence in the viability of the single family rental business model as a public entity. The industrial sector also posted strong gains for the quarter. Demand remains robust, due to the growth of e-commerce and the need to

redesign the global supply chain to meet the needs of quicker delivery. Additionally, Blackstone purchased an \$18 billion U.S. industrial portfolio from GLC during the quarter at a 4.5-4.75% cap rate,<sup>4</sup> providing more proof of investor appetite for the sector. Storage, which was among the weakest performers in the first quarter, rebounded in the second quarter. This was driven by better-than-expected earnings results, assuaging investor concerns about the impact that new supply will have on net operating income (NOI)<sup>5</sup> streams.

The strength in these sectors was offset by weakness in the regional mall, lodging and office sectors, all of which posted negative total returns for the second quarter. Regional malls continue to be hampered by elevated levels of store closings and concerns about

#### Aberdeen Realty Income & Growth Fund Total Returns (%)

|                            | Cumulative as of Jun. 30, 2019 |       |       | Annualized as of Jun. 30, 2019 |       |       |        | Since Inception<br>12/29/98 |
|----------------------------|--------------------------------|-------|-------|--------------------------------|-------|-------|--------|-----------------------------|
|                            | 1 Mo                           | 3 Mo  | YTD   | 1 Yr                           | 3 Yrs | 5 Yrs | 10 Yrs |                             |
| Class A w/o sales charges  | 1.47                           | 1.59  | 18.80 | 11.65                          | 4.99  | 8.10  | —      | 10.38                       |
| Class A with sales charges | -4.36                          | -4.25 | 11.97 | 5.23                           | 2.94  | 6.83  | —      | 9.51                        |
| Institutional Class        | 1.48                           | 1.66  | 18.97 | 11.95                          | 5.25  | 8.36  | 16.65  | 10.71                       |
| S&P 500® Index             | 7.05                           | 4.30  | 18.54 | 10.42                          | 14.19 | 10.71 | 14.70  | 6.30                        |
| MSCI US REIT Index         | 1.27                           | 1.29  | 17.77 | 11.06                          | 4.14  | 7.81  | 15.55  | 10.37                       |

#### Annual Calendar Year Returns (%)

|                           | 2018  | 2017  | 2016  | 2015 | 2014  | 2013  | 2012  | 2011 |
|---------------------------|-------|-------|-------|------|-------|-------|-------|------|
| Class A w/o sales charges | -7.24 | 8.22  | 7.75  | 3.34 | 31.32 | 1.84  | 18.08 | —    |
| Institutional Class       | -7.03 | 8.50  | 8.03  | 3.60 | 31.67 | 2.06  | 18.37 | 9.27 |
| S&P 500® Index            | -4.38 | 21.83 | 11.96 | 1.38 | 13.69 | 32.39 | 16.00 | 2.11 |
| MSCI US REIT Index        | -4.57 | 5.07  | 8.60  | 2.52 | 30.38 | 2.47  | 17.77 | 8.69 |

Minimum Initial Investment (A; C; Inst.): \$1,000; \$1,000; \$1,000,000. Gross/Net expense ratio as of most recent prospectus (A; Inst.): 1.62%/1.25%; 1.35%/1.00%. Annual distributions/ annual capital gains. Expenses stated as of the Fund's most recent prospectus. All classes of the Fund have contractual waivers in place and may not be terminated before 5/4/20 without approval of the Independent Trustees.

**PAST PERFORMANCE DOES NOT GUARANTEE FUTURE RESULTS.** The performance data quoted represents past performance and current returns may be lower or higher. Class A shares have up to a 5.75% front-end sales charge and a 0.25% 12b-1 fee. The investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than the original cost. To obtain performance information current to the most recent month-end, which may be higher or lower than the performance shown above, please call 866-667-9231 or go to [aberdeenstandard.com](http://aberdeenstandard.com).

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Total returns assume the reinvestment of all distributions. Total returns may reflect a waiver of part of the Fund's fees for certain periods since inception, without which returns would have been lower. Indexes are unmanaged and have been provided for comparison purposes only. No fees or expenses are reflected. You cannot invest directly in an index.

<sup>4</sup> The cap rate is the rate of return on a real estate investment property based on the income that the property is expected to generate.

<sup>5</sup> Net operating income comprises a company's revenue minus all necessary operating expenses.

overall demand and capex needs to backfill space. Disappointing revenue per available room (RevPAR) growth thus far in 2019, coupled with economic uncertainty, has resulted in negative sentiment toward economically sensitive discretionary segments of the economy. As such, lodging REITs underperformed in the quarter. New supply coming online in Hudson Yards is limiting pricing power for landlords in New York City and resulting in underperformance for the office sector as a whole.

### Outlook

Looking ahead, despite posting high-teen total returns through the first six months of the year, REIT valuations relative to the U.S. Treasury and private-market real estate valuations still appear fair. Indeed, a low interest-rate environment, coupled with moderate economic growth, should set up quite well for existing landlords to continue to see positive earnings and cash flow growth. Nonetheless, having now experienced the longest economic

expansion in history, we are relatively late in both the economic and real estate cycle. As such, we cannot expect cap rate compression to drive valuations higher and therefore feel that taking a more defensive stance is likely prudent. Against this backdrop, we are focusing our investments on companies with strong balance sheets, higher-quality portfolios and an ability to generate internal earnings growth, as the NOI growth generated can help to offset any pricing pressures that may emerge. Additionally, we are focusing on higher-quality assets, which we believe will be able to withstand structural shifts in demand and help us identify the eventual winners. We have found in periods of elevated volatility that the market does not always differentiate between these issues, thereby providing attractive long-term opportunities for excess returns.

### Top Ten Fund holdings (as of Jun. 30, 2019)

|  | % of Fund    |
|--|--------------|
| Prologis Inc.                          | 7.82         |
| Avalonbay Communities Inc.             | 5.46         |
| Equinix Inc.                           | 4.96         |
| Welltower Inc.                         | 4.87         |
| Simon Property Group Inc.              | 4.41         |
| Ventas Inc.                            | 4.09         |
| Digital Realty Trust Inc.              | 3.65         |
| Alexandria Real Estate Equities Inc.   | 3.20         |
| Realty Income Corp.                    | 2.90         |
| Mid-America Apt Cmnty Inc.             | 2.85         |
| <b>Percent of Portfolio in Top Ten</b> | <b>44.20</b> |

Figures may not sum due to rounding. Holdings are subject to change and are provided for informational purposes only and should not be deemed as a recommendation to buy or sell the securities shown.

### Portfolio characteristics (as of Jun. 30, 2019)

|                    | Fund      | Benchmark  |
|--------------------|-----------|------------|
| Number of Holdings | 45        | 151        |
| Market Cap (M\$)   | 21,807.55 | 925,859.00 |
| Beta               | 0.96      | 1.00       |
| Alpha              | 1.23      | 0.00       |
| Standard deviation | 12.61     | 13.08      |
| R-Squared          | 98.30     | 100.00     |
| Sharpe ratio       | 0.28      | 0.18       |

The beta, alpha, standard deviation and R-squared are based on a 36-month rolling period. Beta is a measure of the volatility of a portfolio in comparison to a benchmark index. Alpha is a measure of performance that takes the volatility of a mutual fund and compares its risk-adjusted performance to a benchmark index. Standard deviation measures historical volatility. R-squared is a statistical measurement that determines the proportion of a fund's return that can be explained by variations in the market, as measured by a benchmark index. Sharpe ratio measures risk-adjusted performance.

## IMPORTANT INFORMATION

### PAST PERFORMANCE IS NO GUARANTEE OF FUTURE RESULTS.

Aberdeen Standard Investments is a brand of the investment businesses of Standard Life Aberdeen plc, its affiliates and subsidiaries. Investments in real estate securities may involve greater risk and volatility including greater exposure to economic downturns and changes in real estate values, rents, property taxes, interest rates, tax and other laws.

A REIT's share price may decline because of adverse developments affecting the real estate industry.

Concentrating investments in one sector subjects the Fund to more volatility and greater risk of loss than more diverse funds.

Dividends are not guaranteed and a company's future ability to pay dividends may be limited.

Foreign securities are more volatile, harder to price and less liquid than U.S. securities. They are subject to different accounting and regulatory standards, and currency exchange rate, political and economic risks. Fluctuations in currency exchange rates may impact a Fund's returns more greatly to the extent the Fund does not hedge currency exposure or hedging techniques are unsuccessful.

Equity securities of small and mid-cap companies carry greater risk, and more volatility than equity securities of larger, more established companies.

Please read the prospectus for more detailed information regarding these and other risks.

Investing in mutual funds involves risk, including possible loss of principal. There is no assurance that the investment objective of any fund will be achieved.

***Investors should carefully consider a fund's investment objectives, risks, fees, charges and expenses before investing any money. To obtain this and other fund information, please call 866-667-9231 to request a summary prospectus and/or prospectus, or download at [www.aberdeen-asset.us](http://www.aberdeen-asset.us). Please read the summary prospectus and/or prospectus carefully before investing any money.***

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