

# SLI UK Real Estate Fund

## Quarterly Update - Q4 2019



The SLI UK Real Estate 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.

Standard Life Investments UK Real Estate Fund, a Sterling denominated sub fund of the Standard Life Investments UK Real Estate Funds ICVC. This fund is managed by Aberdeen Standard Fund Managers Limited.

### 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 sub-fund 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 exceed the return of the IA UK Direct Property Sector Average return (after charges) over rolling three year periods. The Performance Target is the level of performance that the management team hopes to achieve for the sub-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
Leamington Shopping Park, Leamington Spa	5.07
The Old Dairy, South Ruislip	4.19
Isis Reach, Belvedere	4.18
Monument Mall, Newcastle Upon Tyne	4.02
lo Centre & Tradeway, Sutton	3.97
The Gateway Retail Park, Beckton	3.07
Masthead Industrial Estate, Dartford	2.90
Solar Park, Birmingham	2.72
Saxon Way Trading Estate, Heathrow	2.68
1 Marsden Street	2.61

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

Top 10 tenants	% Contracted Rent
B&Q & Screwfix	4.12
Office Depot	3.35
Tesco Stores	2.70
ASDA Stores	2.57
Sainsbury's & Argos	2.42
Weatherford UK	2.37
UK Insurance	2.09
T P Bennett LLP	1.87
TBWA UK Group	1.81
Marks & Spencer	1.78

Source: Aberdeen Standard Investments, 31 December 2019

### Fund facts

Fund size	£1,734.4m
Average lot size	£22.0m
Average lease length	6.4 years
Number of properties	65
Number of tenancies	486
Historic yield	3.3%*
Unencumbered Cash	16.9%^
Vacancy rate	6.4%

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.

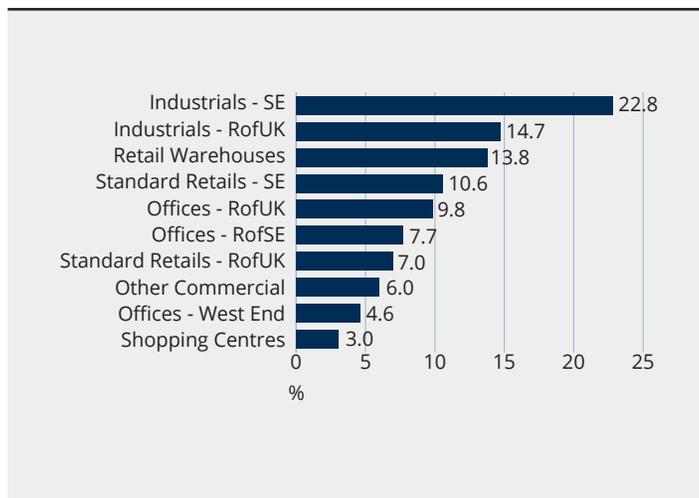
^ The unencumbered cash figure includes cash or cash equivalents plus any short term assets and liabilities within the fund less any future committed capital expenditures.

Lease expiry profile	% Contracted Rent
Less than 5 years	55.6
Between 5 and 10 years	25.1
Between 10 and 15 years	9.2
More than 15 years	10.1

Performance - % growth	3 mths	6 mths	1 yr	3 yrs*	5 yrs*
SLI UK Real Estate Fund	-0.8	-1.1	-1.5	3.3	2.3
IA UK Direct Property	-0.9	-1.2	-1.1	2.7	2.8

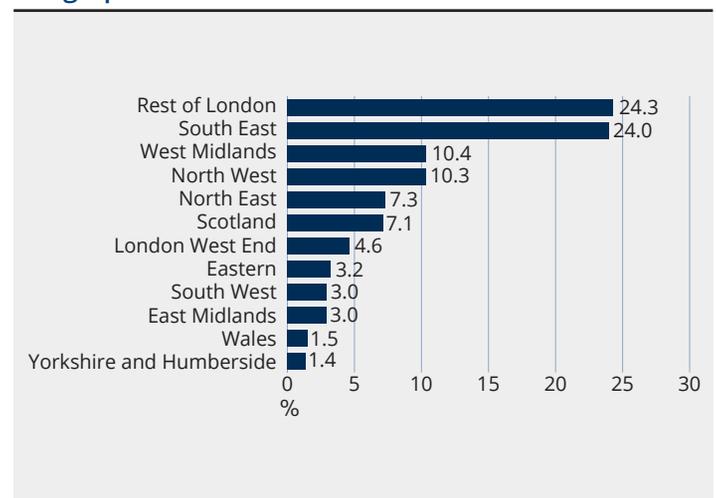
Source: Aberdeen Standard Investments, 31 December 2019  
Data to end June, Fund performance net of Institutional fees.  
\*Returns are annualised

### 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 Q4 the Fund disposed of Omega Park, Didcot, for £15.65m and Cox Lane, Chessington, for £40.25m. Both assets are multi-let industrial estates and the sales capitalise on the strong market sentiment for industrial assets in the South East. The Fund also disposed of 45 Church Street, Birmingham, a city centre office let to 17 tenants across the financial & professional service sector, for £60.1m. As at the end of the quarter the Fund had a further c. £80m of retail assets under offer as we continue to reduce our exposure to this 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.

In the retail sector we completed three rent reviews at Bishop Auckland Shopping Park with an average rental increase of 6.4%. At Bligh's Meadow, Sevenoaks, Kazoku, a Japanese restaurant, has taken a new 25 year lease at an initial rent of £50,000 per annum and an uplift has been secured at rent review with Leaders. At Calverley Road in Royal Tunbridge Wells, a 10 year reversionary lease was agreed with Nationwide Building Society at an initial rent of £190,000 per annum.

In the industrial sector, at Minto Commercial Park, Aberdeen, a new 5 year lease with Isol8 at an initial rent of £85,000 per annum (£9.69 psf) was secured at Ascent Park, Harlow, a 10 year lease extension with Enterprise Rent-A-Car at an initial rent of £73,500 per annum (£10.99 psf); at Brunel Park, Chippenham, two lease extensions with Rotomat, providing an additional 7 years of term. Rent reviews completed at Units 120 and 130, Nursling Industrial Estate, Southampton, to revised rents of £158,906 per annum and £157,985 (£9.50 psf), an uplift of c.31% from the previous passing rent.

In the office sector, at 39 Charlotte Street, London, Six by Nico acquired the lease of the ground floor and entered into a 10 year reversionary lease providing an unexpired term of 18 years and a new 10 year lease with Knotel Inc at an initial rent of £1,256,175 per annum (£75.00 psf) was also secured.

In the other (alternatives) sector, at Avant Garde, Shoreditch, the Fund simultaneously surrendered a lease with Byron and re-let to The Rum Kitchen securing a new 15 year lease at an initial rent of £132,500 per annum (£36.30 psf).

As at 31st December 2019 the unencumbered cash was 16.9% of NAV.

### Property in focus

#### Asset Disposal

##### Cox Lane Industrial Park, Chessington



- South East industrial property comprising four units extending to c.138,000 sq ft
- Prior to the sale over the quarter, a number of asset management initiatives were completed
- The sale capitalised on strong demand for these assets.
- Lease renewal completed with Bunzl providing an additional 10 year term at an initial rent of £609,334 per annum (£11.00 psf), an increase of 29.6%
- A new 10 year lease with Volante at an initial rent of £614,000 per annum (£13.50 psf), prior to the investment sale

### Asset Disposal

#### Omega Park, Didcot



- Well located South East multi-let industrial estate comprising three units. The property extends to c.127,000 sq. ft.
- A new lease has been agreed with Thames Water Utilities providing a term of 5 years at an initial rent of £222,870 per annum (£7.50 psf), prior to the investments sale.
- The sale capitalised on strong demand for these assets.

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### Performance review

The Fund performed in line with IA UK Direct Property return over Q4 2019 with both returning -0.09%. The Fund outperformed 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 -0.09%\* against the MSCI benchmark of -1.31%. The Fund has outperformed this benchmark over 3, 5 and 10 year annualised return periods.

The Fund's industrial assets, particularly South East Industrial, continued to provide the strongest returns in line with the market. 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 an overweight exposure to the favoured industrial 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
SLI UK Real Estate Fund	-1.5	4.5	7.0	-5.8	7.5
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](http://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.**

**The value of investments and the income from them can go down as well as up and investors may get back less than the amount invested.**

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