January 2021

# ASI Global Real Estate Fund

## Benchmark Change

### Introduction and Rationale

Following the decision by MSCI not to seek authorisation for the bespoke global hybrid benchmark (MSCI Global Custom Property/ MSCI World Real Estate Custom Index), designed specifically for the ASI Global Real Estate Fund (GREF), we were required to change the fund's benchmark to comply with EU Benchmark Regulation. Whilst the historic benchmark was created with the intention of producing a robust quarterly performance record for the global institutional direct and listed universe, data sample issues and the relatively small size of the fund in relation to the investment universe, have left the relevance of the benchmark lacking. The benchmark has therefore been under review for a number of months as it became increasingly obvious that the expected trajectory of the benchmark quality had not materialised as expected. The benchmark was originally devised as the best available market comparator with the view that transparency would continue to improve. In the ten years prior to benchmark creation MSCI had added on average a new national market every year, however there have been no new markets added in the last six years. Transparency has also failed to evolve within the markets covered by MSCI, with no increase to frequency of benchmark publication and no material increase in sample size, with some countries' samples decreasing.

The trigger for the new benchmark was EU Benchmark Regulation changes, but the lack of expected growth and evolution of the benchmark is a further underlying reason to move away from it and links to MSCI's decision not to pursue authorisation for this benchmark.

**Current performance target benchmark** – MSCI Global Custom Property/MSCI World Real Estate Custom Index.

**Performance target benchmark from 1st January 2021** – 5% per annum over rolling three year periods, after charges.

### Absolute Return Performance Target

A benchmark needs to be robust as well as timely and this is difficult for global private real estate. The historic benchmark for GREF had limitations related to the markets covered as many countries were only capable of producing benchmarks with an annual frequency as that is the prevailing timescale between valuations. In addition the sample sizes and data quality of some national direct real estate benchmarks is not considered robust enough to be a regulated benchmark.

In the absence of a robust quarterly valued real estate benchmark which can be used in a regulated environment we needed to consider an absolute return alternative. As GREF is designed for retail investors, and the strategy is to achieve global real estate returns, then in the absence of a robust market benchmark an absolute target is the best alternative option.

### Reasoning for Proposed Target Figure

#### Period of Measurement

Real estate cycles are slow and valuations of direct assets are typically undertaken only monthly or quarterly and these valuations can take time to exhibit evidence from the transactions market. Measuring performance over periods as short as one year can be disingenuous as it may take longer for valuations to reflect the market and also purchase costs, which will be lumpier for an individual fund than for a diversified benchmark which may take more than a year to wash through. However the measurement period should be short enough to ensure that the Fund Manager is aligned to performance which may not be the case over timeframes of 10+ years which may see individual and management house changes. A time horizon of 3 years is common in the market and is appropriate for an open-ended fund where investors are able to buy and sell units daily.

Aberdeen Standard Investments

### Listed Real Estate Component

Whilst the fund is a hybrid of direct and listed real estate the predominant focus of the fund is to provide real estate returns in the long term. It is possible to use market benchmarks with daily pricing for the listed component of the funds, but as the correlation between listed real estate returns and that of the underlying direct real estate is highly correlated over longer time periods then it seems appropriate to use an absolute target for the entire fund rather than an absolute component plus a listed component. This is supported by the fact that fund strategy is to limit the listed component to a minority exposure of the overall fund value.

### Combined Global Direct and Listed Real Estate Returns

In considering an appropriate target return figure we viewed both the historic return profile of global real estate and took a forward-looking view on investment returns. The most robust performance data for the major global real estate investment markets is produced by MSCI. Annualised returns for the benchmark since inception (Dec 2000 – Dec 2018) are 7.3% p.a., and the 10 year annualised return (Dec 2008 – Dec 2018) is 6.8% p.a. For comparison the annualised returns on the direct real estate component of the historic benchmark was 6.6% p.a. over the 14 year history of the dataset. Based on history it would therefore seem appropriate to expect that in a low return environment global direct real estate returns are likely to remain in the 6.5% – 7.0% range.

The two major providers of performance benchmarks for listed real estate are MSCI & FTSE EPRA NAREIT. The historical performance of the FTSE EPRA/NAREIT Global Real Estate benchmark hedged to sterling is much more volatile than the direct real estate market return series but over the long term annualised returns are not higher than the underlying direct real estate. The FTSE EPRA/NAREIT Custom Hedged GBP benchmark returns on an annualised basis over 10 years (Nov 2009 – Nov 2019) are 10.0% p.a. although it is worth noting this has mostly been through an expansionary part of the economic cycle in the major markets.

With a fund strategy designed to deliver global real estate returns the emphasis is on direct real estate investment as the primary driver of returns. This is borne out by the MSCI market size estimates which suggest the direct real estate market for professional investment is valued at approximately twice that of the listed real estate market, hence an approximate weight of two thirds direct and one third listed in the existing MSCI hybrid benchmark. The listed element of the fund over recent years has been approximately 30% listed and 70% direct real estate.

| Direct | Listed | Combined |
|---|---|---|
| 7% p.a. | 10% p.a. | 7.9% p.a. |
| 70% | 30% | 100% |

### Total Expense Ratio and Tax

The historic benchmark took account of a total expense ratio derived from MSCI information on this metric across multinational funds which they measure, predominantly in Europe. INREV data corroborates the MSCI TER of 1.91% p.a. which is due to costs associated with operating in a number of legal and tax jurisdictions across Europe and similar data exists for Pan-Asian funds.

The costs associated with operating across not just a single region, but globally, are greater still, particularly when taking into account the transaction and income tax regimes encountered when operating globally. In a typical year, using 2019 as the most recent example, taxation accounted for an additional 0.89% reduction to the total return.

As it is not possible to gain exposure to direct real estate across a number of countries without incurring these costs it is appropriate to take this into account when considering an absolute target commensurate to the level of risk a core / core+ fund would be comfortable taking.

Subtracting the TER of 1.9% and the taxation costs of 0.9% from expected global returns of 7.9% therefore leads to an absolute expected achievable return of 5.1% p.a., which leads to our chosen target of 5% p.a. on a three year rolling basis.

### Important Information

**Objective:** To generate income and some growth over the long term (5 years or more) by investing in global commercial property markets. **Performance Target:** To generate a return of 5% per annum over rolling three year periods, after charges. The Performance Target is the level of performance that the management team hopes to achieve for the fund. There is however no certainty or promise that they will achieve the Performance Target. The Manager believes this is an appropriate target for the fund based on the investment policy of the fund and the constituents of the index.

**Portfolio Securities** – The fund invests at least 80% in global commercial property and property-related equities (company shares) with the potential for up to 100% to be held in commercial property at any time. The fund may also invest indirectly in commercial property through investment vehicles such as quoted and unquoted property companies or funds (including those managed by Aberdeen Standard Investments). The fund may also invest in money-market instruments, and cash.

The value of investments and the income from them can fall and investors may get back less than the amount invested.

More details of the risks applicable to this fund can be found in the Key Investor Information Document (KIID) and Prospectus, both of which are available on request or at our website **aberdeenstandard.com**