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2019

Standard Life Investments Property Income Trust

AberdeenStandard Investments

31 March 2019

Investment Objective: To provide an attractive level of income along with the prospect of income and capital growth from investing in a diversified UK commercial property portfolio. The Company invests in the three principal commercial property sectors: office, retail (including leisure) and industrial but may also invest up to 10 per cent in other commercial property and undertake property development (including speculative property development) up to 10 per cent of gross assets. The Company can invest up to 10 per cent in indirect property vehicles or funds.

Company Description: Standard Life Investments Property Income Trust Limited is a closed-ended, Guernsey registered investment company managed by Standard Life Investments with an independent Board of Directors. The Company trades as a UK Reit for tax purposes.

- Net asset value ("NAV") per ordinary share was 91.1p (Dec – 91.0p), a rise of 0.1%, resulting in a NAV total return, including dividends, of 1.4% for Q1 2019.
- The portfolio valuation increased by 0.3% on a like for like basis, whilst the IPD/MSCI Monthly Index dropped by 0.8% over the same period.
- LTV* of 24.4% and cash fully invested but with RCF of £15m still available for investment in future opportunities.
- Dividend yield of 5.3% based on a quarterly dividend of 1.19p and the share price of 91.1p as at 31 December compares favourably to the yield on the FTSE All-Share REIT Index (4.3%) and the FTSE All Share Index (4.2%) as at the same date.

*LTV calculated as Debt less cash divided by portfolio value.

Guernsey - domiciled UK REIT

Property Income

Quarterly

Fund Manager	Jason Baggaley
Launch Date	19 Dec 2003
Sedol	3387528
Reuters	SLI.L
Portfolio Value (incl cash)	£509.8m (at 31/03/2019)
Market Capitalisation	£366.9m (at 31/03/2019)
Management Fee	0.75% of total asset up to £200m, 0.7% of total assets between £200m and £300m, and 0.65% thereafter.

Dividend*	Annual gross dividend 4.76 pence per share
Ordinary Share Price	90.4 pence (as at 31/03/2019)
NAV per Ordinary Share	91.1 pence (as at 31/03/2019)
Loan to Value**	24.4% (as at 31/03/2019)

* Dividend payable in May, Aug, Nov and March.
** Borrowings less cash divided by portfolio value.

Standard Life Investments Property Income Trust plc ('the Company') currently conducts its affairs so that securities issued by it can be recommended by financial advisers to ordinary retail investors in accordance with the FCA's rules in relation to non-mainstream investment products and intends to continue to do so for the foreseeable future. The Company's securities are excluded from the FCA's restrictions which apply to non-mainstream investment products on the basis that the Company conducts its affairs as if the it would be an investment trust if it was resident in the UK.

This document is intended for use by individuals who are familiar with investment terminology. Please contact your financial adviser if you need a explanation of the terms used.

Portfolio Information

UK Sub-Sector Weighting (total assets)

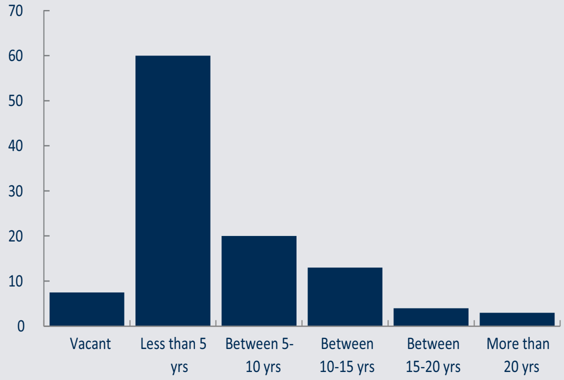
Properties	Company %
ROUK Industrial	37
South East Offices	18
SE Industrial	15
ROUK Offices	9
Retail Warehouse	7
Other	7
Central London Office	5
High St. Retail	2

Top Ten Holdings

Property/Direct Investment	Location	Value Band
54 Hagley	Birmingham	£20 -25m
Denby 242	Denby	£18-20m
Symphony	Rotherham	£18-20m
The Pinnacle	Reading	£14-16m
New Palace Place	London	£14-16m
Chester House	Farnborough	£14-16m
Hollywood Green	London	£14-16m
Marsh Way	Rainham	£14-16m
Timbmet	Shellingford	£14-16m
Solihull Parkway	Birmingham	£12-14m

Company Information

Lease Expiry/Break Profile



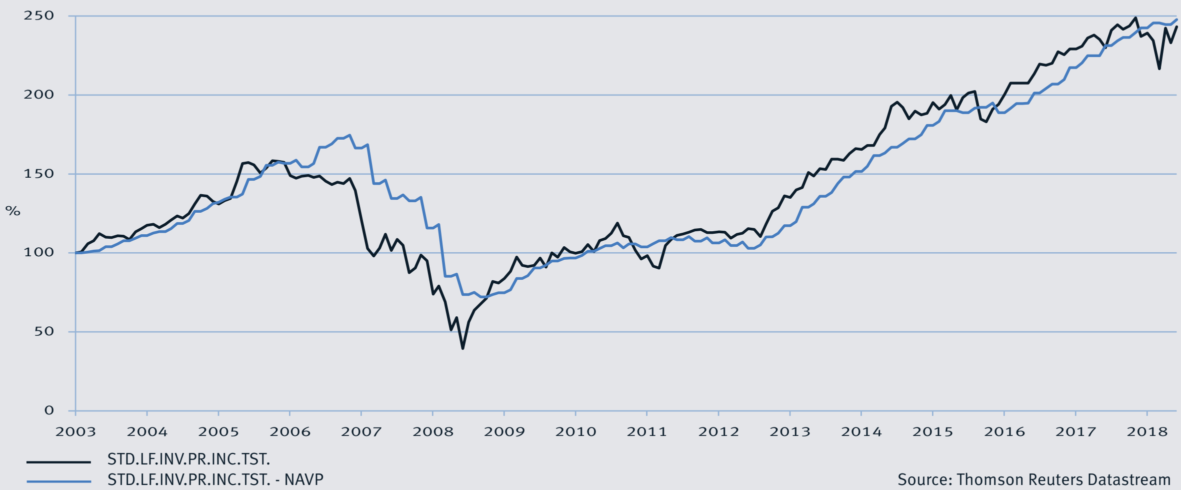
Average unexpired lease term to earliest of break or lease expiry is 6 years.

Portfolio Performance

	Q1 (%)	1 Year (%)	3 Years (%)	5 Years (%)
Portfolio Performance (Total Return annualised)	1.8	7.7	8.9	11.0
Benchmark (Total Return annualised)	0.4	5.0	6.3	9.3

Discrete Year D	31/03/2019 (%)	31/03/2018 (%)	31/03/2017 (%)	31/03/2016 (%)	31/03/2015 (%)
NAV Total return	7.4	16.1	4.8	13.6	20.8
Share Price Total Return	5.7	7.7	7.6	2.9	25.8
IPD Benchmark	7.7	12.9	6.1	11.8	16.9

NAV and Share Price Total Return



Source: Thomson Reuters Datastream

Note: Past Performance is not a guide to future performance. The price of shares 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.

Benchmark : SLI / MSCI (IPD) quarterly version of monthly valued funds.

For full details of the fund's objective, policy, investment and borrowing powers and details of the risks investors need to be aware of, please refer to the prospectus.

Market Commentary

Looking at the UK it is clear that Brexit-related uncertainty is now weighing very heavily on the economy and is responsible for much of the recent slow-down. However, assuming a ‘no deal’ Brexit is avoided and uncertainty around the terms of exit is not prolonged for too long, the economy is poised for a recovery into 2020.

Recent patterns in the occupier market have changed little, setting aside the short-term turbulence caused by Brexit-related uncertainty, which is making leasing deals more difficult to complete. Structural trends are the key drivers of industrial strength and retail weakness, while strong office fundamentals are being tempered by the uncertain climate as well as the rapid growth of the flexible office sector.

Capital values have fallen for five consecutive months, according to the MSCI Monthly Index in March 2019. Liquidity in the market remains impaired, with evidence growing that appetite for risk has diminished. A high proportion of deals for alternative assets, in a quarter of otherwise muted investment activity, emphasises that lower risk income focus.

In our base case we expect a low return environment over the next three years for the commercial real estate market, with total returns of just 1.9% per annum over the period 2019-21. We also expect the current wide spread in sector level returns to endure in the short term and performance to be dispersed across the risk spectrum.

In the current environment, we believe it is prudent to secure income as a priority over pushing for the highest immediate rent and to crystallise profits from recent asset management success. The listed market continues to build in large discounts for retail, although a rising wider equity market has narrowed discounts to NAV for generalists and a number of stocks focused on industrial and alternatives continue to trade at a premium.

The first quarter is usually a busy time in the real estate lending market but a combination of factors has brought it almost to a standstill in 2019. While there are some active debt funds, appetite is at the low risk end of the spectrum and willingness to lend against retail is almost non-existent. Difficulty in refinancing shopping centres could be a trigger for distressed sales.

Outlook

The UK market is being weighed down by Brexit and, at the time of writing, numerous outcomes remain possible, including a hard ‘no deal’ scenario. The risk to market pricing and of occupier distress is greatest in that scenario but, even if it is averted, it does not mean an end to the uncertainty around the UK’s future trading relationships.

Passage of the EU Withdrawal Agreement merely moves the Brexit process on, but with no clear visibility of the eventual nature of the long term UK-EU relationship. Meanwhile, an extension of the Article 50 process offers no resolutions and prolongs the current uncertainty.

With the only definitive scenario – a ‘no deal’ Brexit – being the most disruptive, in ASI’s view, and more prolonged uncertainty being the alternative, we do not expect risk to be rewarded in the short term.

Fund Manager Commentary

It is no surprise that the Brexit negotiations dominated Q1 and investment transaction levels in UK real estate, along with take up, were well below average.

In this environment we were pleased to complete three new lettings and a lease renewal. Despite all the market commentary about the retail sector, one letting was of a retail unit that previously had been let to Maplin. We also renewed a lease to Tesco that was due to expire in 2020 to give an extra 10 years income security.

The familiar theme of industrials being the best performing sector, and retail the worst, continued into the first quarter of 2019 and looks set to remain the case for some time yet. The structure of the Company’s investment portfolio remains supportive for continued outperformance compared to the IPD / MSCI index, and holding a large exposure to industrial / logistics and small exposure to retail remains the correct balance.

After the quarter end we also completed on the surrender and re-letting of an office in Staines. This exemplifies our active approach to asset management – following one of our regular tenant meetings we became aware that the tenant wanted to downsize in the building and would probably exercise their break clause in 2021. We agreed to jointly market the building with them, so that our experience in that market could be utilised, and we quickly identified a new tenant, who wanted the whole building on a new ten year lease. A three-way deal is never easy, but by working together we were able create a transaction that worked for all parties.

During the quarter we experienced an increase in voids notwithstanding the new lettings (7.4% compared to 5.9% at end of December 2018), as a distribution warehouse became vacant on lease expiry. We are currently marketing the unit, which is in Rugby, part of the “Golden Triangle” for industrials.

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