Standard Life Global Real Estate Fund

31 March 2022

Activity

The Fund completed the disposal of the Fleming Court office asset in Dublin during the quarter. As of quarter end, the office building in The Hague is under offer to sell, with completion expected to take place during the second quarter of 2022.

At the Singapore asset, the anchor tenant Kohler's lease has been extended for a further five years, which substantially de-risks the asset's income profile. We are also speaking to the restaurant tenant at this asset, who has experienced robust trade during the pandemic and now wishes to extend the restaurant's lease contract.

At St Kilda Rd, Melbourne, the upgrade works to the café and foyer commenced following the easing of lockdown restrictions; these are expected to complete early in the second quarter. We are experiencing an uptick in new enquiries for the vacant space in the building and completion of the aforementioned works are expected to bolster the building's appeal.

Throughout the quarter, we made a number of changes to the listed portfolio. The most notable change was cutting our exposure to the tech-related data centre and telecommunication tower sectors (Equinix, American Tower and Crown Castle), as we believe these companies may underperform in a higher interest-rate environment.

Outlook

Currently, global real estate continues to record relatively strong returns and prices have broadly remained resilient to date. However, looking forward, the secondary effects of the Ukraine invasion have led us to trim back our forecasts modestly in the near-term, and we have become more cautious towards riskier assets that we believe have become more vulnerable to pricing weakening in the current environment. As expected, given the relatively minor role played by Russian capital within the commercial real estate sector, the immediate direct effect to the asset class has been insignificant. However, on a medium-term view, subsequent effects, such as an exacerbation of already elevated inflationary pressures as a result of increased commodity prices, tightening financial conditions, curtailment of trade and a general heightening of uncertainty, have led to aRI reducing their forecasts for global growth going forward. A weaker economic environment will likely lead to a lower level of business, consumer and occupier confidence than we were previously expecting and subsequently lower occupier demand than our view last quarter. The tightening rate environment may also lead to investors reviewing the prices they are likely to pay for some poorer-quality assets where the rental expectations may not be as resilient as previously expected. Positively, increased construction costs may slow down future construction and help elongate the current cycle.

Our view on the key thematic trends playing out in the market at present hasn't changed. We continue to expect the long-term structural trends that have been in place for some time to continue. We expect that weaker economic growth will affect the office sector, which is already under pressure, with a question mark remaining over offices, given the hybrid-working model that has emerged during the pandemic. Weaker growth may also dampen occupier demand, which would be a further headwind for poorer-quality assets in the sector. We expect that retail will also face pressure, particularly for those areas of the retail market that cater to discretionary spending. Inflation and weaker economic growth could put pressure on retailers, as non-essential spending is curbed. However, grocery-anchored retail or those areas that are tilted toward the budget end of retail are likely to remain resilient. The crisis could drive a further wedge between the various retail formats. Residential assets are likely to continue to prove resilient, given they are an essential purchase. They also have a link to inflation through rental contracts. Undersupply in this market remains an issue for many global cities. This could be exacerbated by rising construction and build costs, which would likely dampen the supply pipeline. Industrial and logistics assets remain favourable. Supply for these assets is constrained in many markets and build-cost inflation would limit further development. However, the sector is also most exposed to supply-chain disruptions, and we will continue to monitor this closely.

The risks to the outlook are arguably greater than last quarter given the heightened inflationary pressure and elevated geopolitical tensions. We are very cautious towards assets where occupier demand may be less resilient than previously expected given the slower global growth expectations.

Risk factors you should consider before investing:

a. The value of an investment can fall as well as rise and is not guaranteed. An investor may get back less than they put in. Past Performance is not a guide to future performance.

b. 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.

c. The fund invests in emerging market equities and / or bonds. Investing in emerging markets involves a greater risk of loss than investing in more developed markets due to, among other factors, greater political, tax, economic, foreign exchange, liquidity and regulatory risks.

d. The fund invests in equity and equity related securities. These are sensitive to variations in the stock markets which can be volatile and change substantially in short periods of time.

e. 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.

f. 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.

g. Property valuation is a matter of judgment by an independent valuer and is therefore a matter of the valuer's opinion rather than fact.

h. Dividend payment policies of the REITs in which the fund invests are not representative of the dividend payment policy of the fund.

i. The fund employs a single swinging pricing methodology to protect against the dilution impact of transaction costs. Due to the high transaction charges associated with the fund's assets, a change in the pricing basis will result

Strategy

The Fund continues to hold a very strong liquidity position, with listed assets making up circa 21% of the Fund and a cash weighting (which has been bolstered by the recent sale of Fleming Court and investor inflows) at circa 9%. The pending sale of the The Hague asset and its resulting cash receipt means that we are currently actively evaluating investment opportunities in the market. Target sectors remain industrial and retail warehousing and core alternative sectors where the Fund could benefit from a long-lease duration underpinned by underlying operational strength.

Elsewhere, we will continue to try and keep the direct portfolio as close to full occupancy as possible and deal with requests for rental relief in a constructive manner.

On the listed side, we continue to follow our strategy: we are likely to maintain the overweight positions to the industrial and residential sectors and also stock-specific opportunities that we believe will benefit from the easing of lockdown restrictions.

in a significant movement in the fund's published price.

j. 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.

Cumulative and Annualised performance as at 31/03/2022

	3 Months %	1 Year %	3 Years (p.a.) %	5 Years (p.a.) %
Standard Life Global Real Estate Fund	0.2	9.9	3.1	2.8

Discrete annual performance year to 31/03

	2022	2021	2020	2019	2018
Standard Life Global Real Estate Fund	9.9	-3.1	2.7	4.1	1.0

Fund performance has been calculated net of Annual Management Charge.
Source: abrdn

Past performance is not a guide to future results. The value of investments, and the income from them, can go down as well as up and an investor may get back less than the amount invested. This investment may be affected by changes in currency exchange rates.

Performance

During the first quarter, the ASI Global Real Estate Fund returned 0.2%, net of AMC. Although performance in March returned 1.97%, net of AMC. first quarter overall performance was affected by the negative returns of January and February. Over the past 12 months, the Fund has returned 9.94%.

Key performance drivers and detractors in the first quarter have been:

1. Despite the listed portfolio returning almost 8% in March, for the first quarter, the cumulative return was -5.6%.

2. The direct portfolio was again driven by the four industrial assets, which, in capital terms, are up between 2.4% and 10.9%. The Fund's four direct industrial holdings experienced capital uplifts of between 5% and 10% during the quarter.

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