

Q2 2020

Standard Life Property Fund



Environment

The Covid-19 global pandemic continues to have a material effect on the UK commercial real estate market. The quarter started with a UK-wide lockdown, which has been gradually eased with non-essential retail in England re-opening on 15 June, subject to social distancing measures. Pubs, restaurants and cinemas were then permitted to re-open from 4 July. Gyms remain closed until 25 July. The easing of lockdown provisions in Scotland and Wales generally lagged the position in England.

Activity

The Fund's standing independent valuers continue to value subject to 'material valuation uncertainty' ('MVU'), although the extent of the assets subject to MVU has gradually reduced over the period. As at 30 June 2020 around 43% of the scheme's assets remained subject to MVU. As at 15 July, this had reduced further to around 36%.

We continue to proactively engage with our tenants and where appropriate seek a collaborative approach to managing through the current crisis. We believe this approach will be beneficial to investors in the medium term, with financially sound businesses continuing to operate and occupy premises once the lockdown position eases.

As at 14 July 2020, rent collection for the second quarter of 2020¹ was 74.3%. For the third quarter of 2020², it was 52.2% (this has now increased to 60.8% as at 22 July 2020).

We expect that the figures for both periods will improve as monthly rents are received and as interaction with tenants continues.

No capital transactions were completed, but a number of successful asset management initiatives concluded, despite the current challenges. Retail activity included Bligh's Meadow, Sevenoaks, where a lease renewal with Pets Corner completed at a rent of £60,600 per annum (p.a.), securing an additional 10-year term. A reversionary lease also completed with Handelsbanken at a rent of £41,000 per annum

and with an additional 10-year term. At Monument Mall, Newcastle, a rent review with Fenwick secured a revised rent of £16,500 p.a., which was an uplift of 65%. At 63 Hampstead High St, a regear completed with existing tenant Joe & The Juice, which extended the term certain to provide seven years unexpired and retained the passing rent of £108,000 p.a. At Tudor Arcade, Dorchester, a lease renewal completed with The Fridge, which secured an additional 10-year term at a rent of £14,750 p.a.

In the industrial sector, at Solar Park, Solihull, a regear with existing tenant Amtico extended the term certain to provide five- and a-half years unexpired. At Brooklands Close, Sunbury, a regear with existing tenant ITS Testing Services extended the term certain to provide 10-years unexpired, retaining the passing rent of £215,000 p.a.

1: Rent collection for all rents demanded between 28 February and 1 June 2020

2: *Rent collection for rents demanded since 24 June 2020

Portfolio positioning and outlook

We anticipate further capital declines, particularly in the retail and leisure sectors, and performance is expected to diverge substantially across the risk spectrum in most segments. Structural shifts, such as the increase in ecommerce at the expense of traditional bricks and mortar retailing, are expected to continue. This is likely to maintain support for industrial assets, particularly urban logistics.

Strategy

Our immediate focus continues to be on tenant engagement to secure appropriate rental income and on taking a proactive medium-term approach to income security and occupational levels.

We remain focused on reducing risk within the property portfolio, while also targeting an enhanced exposure to liquid assets. We will continually review and implement enhancements as appropriate to best protect the interests of our customers and investors as matters evolve.

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Cumulative and Annualised Performance as at 30/06/2020

	3 Months (%)	1 Year (%)	3 Years p.a. (%)	5 Years p.a. (%)
Standard Life Property	-3.3	-7.2	-0.4	-0.9

Discrete annual performance - year to 30/06

	2020 (%)	2019 (%)	2018 (%)	2017 (%)	2016 (%)
Standard Life Property	-7.2	0.5	6.1	4.4	-7.3

Fund performance has been calculated net of Annual Management Charge
Source: Aberdeen Standard Investments (Fund).

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

The Authorised Property Unit Trust ('APUT')/Property Authorised Investment Fund ('PAIF') MSCI Benchmark for the second quarter of 2020, which illustrates the relative performance of the underlying direct property assets, is not currently available.

As a result of Covid-19, all the main sectors recorded capital declines over the period to end June 2020. The Fund's retail and leisure assets were most affected, with the office and industrial sectors proving more resilient in line with expectations and the market.

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Important information

Investment involves risk. 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. Past performance is not a guide to future results. This investment may be affected by changes in currency exchange rates.

Risk factors you should consider before investing:

- 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.
- 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.
- 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.
- 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.
- Property valuation is a matter of judgment by an independent valuer and is therefore a matter of the valuer's opinion rather than fact.
- 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 in a significant movement in the fund's published price.

The information contained in this marketing document should not be considered as an offer, investment recommendation or solicitation, to deal in the shares of any securities or financial instruments. It is not intended for distribution or use by any person or entity who is a citizen or resident of or located in any jurisdiction where such distribution, publication or use would be prohibited. No information, opinions or data in this document constitute investment, legal, tax or other advice and are not to be relied upon in making an investment or other decision.

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