Sep
2018

Standard Life Investments Property Income Trust

Aberdeen Standard Investments

30 September 2018

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 91.4p (Jun 18 – 90.1p), a rise of 1.4%, resulting in a NAV total return, including dividends, of 2.8% for Q3 2018.
- The portfolio valuation increased by 1.7% on a like for like basis, whilst the IPD/MSCI Monthly Index rose by 0.4% over the same period.
- LTV* of 21.4% and cash fully invested but with RCF of £35m 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 89.5p as at 26 October 2018 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)	£486.3m (at 30/09/2018)
Market Capitalisation	£366.5m (at 30/09/2018)
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	90.3 pence (as at 30/09/2018)
NAV per Ordinary Share	91.4 pence (as at 30/09/2018)
Loan to Value**	21.4% (as at 30/09/2018)

* 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)

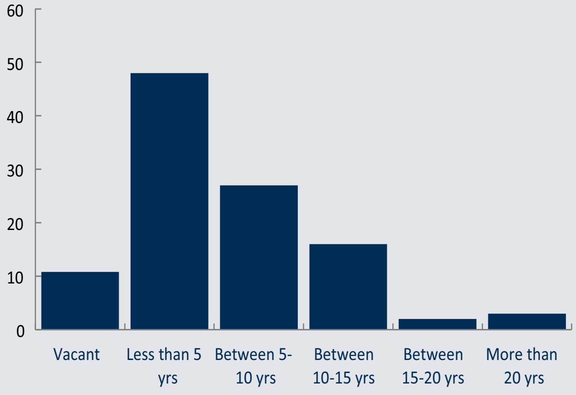
Properties	Company %
ROUK Industrial	39
South East Offices	18
SE Industrial	15
Retail Warehouse	8
Other	7
Central London Office	6
ROUK Offices	4
High St. Retail	3

Top Ten Holdings

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

Company Information

Lease Expiry/Break Profile

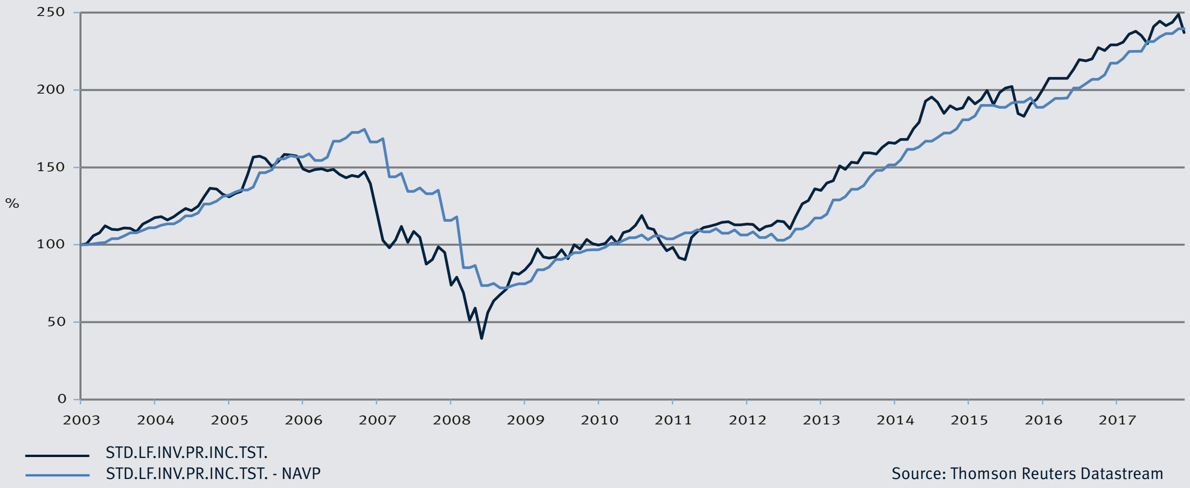


Average unexpired lease term to earliest of break or lease expiry is 6.3 years.

Portfolio Performance

	Q3 (%)	1 Year (%)	3 Years (%)	5 Years (%)
Portfolio Performance (Total Return annualised)	2.4	10.5	9.4	12.5
Benchmark (Total Return annualised)	1.6	9.3	7.2	10.7

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

The UK economy bounced back in the second quarter after a weak start to the year. However, at 0.4%, the recovery amounted to little more than a return to trend growth than making up for any ‘lost ground’.

As expected, the Bank of England (BoE) increased interest rates by 25 basis points (bp) to 0.75% at the August meeting of the monetary policy committee. The BoE has highlighted rising unit labour costs (ULC) as a reason for more monetary tightening; it effectively thinks the ‘speed limit’ of the economy is much lower than in the past.

Aberdeen Standard Investments (ASI) is of the view that the relationship between ULC and inflation is not always robust and are forecasting just one further 25 bp hike in rates in 2019.

The manager’s Brexit base case is that a ‘no deal’ scenario will be averted but there are a number of very different ways in which this could happen. Nevertheless, the risk of ‘no deal’ has risen and is uncomfortably high with less than six months until the UK leaves the EU.

The Industrial sector remains comfortably the strongest part of the market in terms of occupier sentiment and fundamentals. While monthly MSCI data suggests a slowing in the rate of rental growth in August, the managers see no visible change in rental tension, with vacancy rates remaining exceptionally low.

London office markets remain broadly static with uncertainty around Brexit regularly cited as a factor for occupiers. The trend is slightly more positive in the ‘big six’ regional office markets, with the modest but steady upward trajectory of rents continuing and the vacancy rate being gradually eroded.

The retail sector continues to face significant long-term structural challenges that the modest rates of rental decline in the MSCI indices do not yet reflect. There are very few expansionary retailers away from the value end of the market.

Early data on investment volumes by value for the third quarter suggest the lowest quarterly total in two years and substantially less than during the same quarter in 2017.

In a similar vein to last quarter, investor preference in the listed sector continues to be tilted towards the income-orientated sectors. Industrial and alternatives are trading at varying levels of net asset value (NAV) premiums, while retail real estate investment trusts (REITs) remain at large discounts to NAVs. The London office names are still trading at a discount to NAV, reflecting the current level of uncertainty in the market.

Outlook

In the short term, our forecasts are muted and below the current consensus view. From a top-down perspective, we expect existing industrial investments to deliver considerably stronger returns than retail and offices over the next three years, but accessing the yield component of those returns through new purchases is unrealistic given competitive bidding.

We expect retail returns to be negative over the next three years, with rents declining and yields rising, but that dynamic is not uniform across the sector.

Although there are clear differences in the outlook for the various sectors of Industrial, Office and Retail, it is important to maintain a disciplined approach at asset level to invest in good quality assets that meet occupier needs.

Fund Manager Commentary

The Company has 54% of the portfolio in the industrial / logistics sector, 28% in the office sector, 7% in Other (leisure and data centres), and 11% in retail, with strong diversification of asset and tenant base across all the sectors. We believe this allocation will continue to support ongoing outperformance against the benchmark. Notably, despite the continued problems facing the retail sector, the Company has benefited from its low exposure to the sector. SLIPIT has seen two retail tenant failures in the last year, but both units are now under offer – indeed one of them has three parties in competition and a rental level the same as under the old lease.

Three investment transactions were contracted during the quarter; the purchase of an industrial facility close to Kettering let for 20 years with five yearly indexed reviews for £8.1m, reflecting a yield of 7.15%, and the purchase of a 61,000 sq. industrial unit close to Glasgow for £5.03m, reflecting a yield of 7% on the settlement of an outstanding rent review. After the quarter end the company completed the sale of a vacant industrial unit in Oldham, which had been the largest void for the last 18months. The sale price of £6.3m was nearly 13% above the 30 June valuation.

Q3 2018 should have been a quiet quarter for asset management – after all, there is so much noise about political turmoil, Brexit, trade wars and the outlook for the UK economy. The managers have, however, remained busy in ensuring tenants continue to have good quality accommodation that works for their businesses. The managers completed six lease renewals / extensions with a rental value of £1.15million p.a. along with three smaller lettings totalling just under £200,000 p.a. SLIPIT also took a surrender of a short lease on some office accommodation in a multi-use asset in Westminster, (with a three month rent penalty), and simultaneously agreed to re-let the space on a new 10 year lease.

The reported vacancy rate actually increased over the quarter to 10.8% as the company had a lease expiry on a large logistics unit where the tenant vacated (representing 2.5% of the void); however the managers have already agreed terms to re-let the unit. In addition, since the quarter end, the void rate has reduced to 7.9% due mainly to the sale of Oldham referred to above.

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www.aberdeenstandard.com

Contact us

Telephone

0345 266 0078

E-mail

globalclientmanagement@standardlife.com

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