Mar 2018

Standard Life Investments Property Income Trust

31 March 2018

Standard Life Investments

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 89.4p (Dec 2017 – 87.6p), a rise of 2.1%, resulting in a NAV total return, including dividends, of 3.4% for Q1 2018.
- The portfolio valuation increased by 1.9% on a like for like basis, whilst the IPD/MSCI Monthly Index rose by 1.0% over the same period.
- LTV* of 14.3% and uncommitted cash of £44.1m post the quarter end transactions with RCF of £35m also still available for investment in future opportunities.
- Dividend yield of 5.1% based on a quarterly dividend of 1.19p as at 24 Apr 2018 compares favourably to the yield on the FTSE All-Share REIT Index (3.8%) and the FTSE All Share Index (3.7%) as at the same date.
- Two year extension of existing £35million Revolving Credit facility ("RCF") secured with Royal Bank of Scotland. While the margin over LIBOR on the RCF will increase from 1.2% to 1.45% this extension will mean the RCF will now expire at same time as the term loan in April 2023 providing the Company with increased certainty of both availability and cost of financing to this date. The interest rate on the Company's £110 million term loan remains fixed at 2.725%.

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)	£476.5m (at 31/03/2018)
Market Capitalisation	£361.6m (at 31/03/2018)
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	89.7 pence (as at 31/03/2018)
NAV per Ordinary Share	89.4 pence (as at 31/03/2018)
Loan to Value**	14.3% (as at 31/03/2018)

* 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)

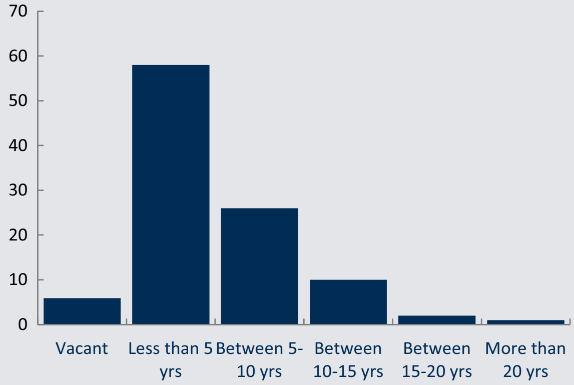
Properties	Company %
ROUK Industrial	38
South East Offices	23
SE Industrial	16
Retail Warehouse	9
High St. Retail	6
ROUK Offices	5
Central London Office	3

Top Ten Holdings

Property/Direct Investment	Location	Value Band %
Denby 242	Denby	£18 -20m
Symphony	Rotherham	£16 -18m
Chester House	Farnborough	£14 -16m
Pinnacle	Reading	£12 -14m
New Palace Place	London	£12 -14m
Hollywood Green	London	£12 -14m
Charter Court	Slough	£12 -14m
Howard Town Retail Park	High Peak	£12 -14m
Timbmet Distribution	Shellingford	£12 -14m
Unit 1 Marsh Way	Rainham	£12 -14m

Company Information

Lease Expiry/Break Profile



Average unexpired lease term to earliest of break or lease expiry is 5.6 years.

Portfolio Performance

	Q1 (%)	1 Year (%)	3 Years (%)	5 Years (%)
Portfolio Performance (Total Return annualised)	2.5	12.9	10.2	12.7
Benchmark (Total Return annualised)	2.2	10.5	8.3	10.9

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

UK economic growth was 0.4% in the fourth quarter of 2017 and was revised down to 1.7% for the year as a whole. Early data for the first quarter of 2018 has been underwhelming, particularly for the services sector. Retail sales figures have been particularly weak over the first quarter, however there are signs that the economy will benefit from a recovery in household spending power later this year as the tight labour market starts to feed through into stronger wage growth. Regular pay growth reached 2.8% in February, while consumer price inflation (CPI) fell to 2.5% in March. The Bank of England has signalled that further rate rises are coming although the recent GDP announcement has cast some doubt over the timing of these.

The UK property market produced a total return of 2.3% in Q1, according to the MSCI Monthly Index. Over the 12 month period to 31 March the total return was 11.3% after a year of consistent capital growth resulting in 5.6% capital growth over the 12 month period. The majority of this growth came from inward yield shift, with rental value growth of only 2% over the 12 months.

Volatility in the financial markets in Q1 have been reflected in the negative total returns of the FTSE All Share (-6.9%) and the FTSE 100 (-7.2%). The FTSE All-Share REIT Index was also negative over the first quarter of 2018 at -3.5%.

Industrials remained the clear outperformer at a sector level, with a total return of 4.3% over the quarter, led by strong returns in the South East and rental growth of 1.0%. Office and retail total returns over the quarter were more muted at 1.9% and 1.2% respectively, with a modest 0.4% growth in rents in the former but flat rents in the latter. In the office sector, central London underperformed the South East and the regions over the quarter with South East offices now also the top performing office segment over the last five years. Retail returns were weighed down by shopping centres, which returned just 0.4% over the quarter but retail warehouse performance was healthier at 1.5%.

Outlook

We envisage positive but low total returns over the next five years, with the forecast annual total return being slightly below the market income return. Aside from industrial valuations catching up with extremely strong pricing and delivering appreciably stronger returns in the short term, we do not see yield shift contributing positively to capital growth over the forecast period. Relative differences in projected segment performance beyond that initial yield shift for industrials are expected to be reasonably small, with no clear outperforming segment beyond industrial in 2018. Whilst the downside risk is greater as prices remain high in a long-term context, we do not see a specific trigger for a correction. Fundamentals are positive in the industrial sector, although retail is more polarised. Most office markets are well-balanced with limited new supply, albeit we see more risk in London. Debt is accretive to income returns and lending remains selective and prudent, with total debt much lower than before the global financial crisis. There remains significant capital targeting the asset class, both from overseas and domestic investors' allocations, with the comparatively high income yield one of the attractions. We would caution that property's required risk premium has likely increased over time as leases have shortened and income has become riskier, while rental growth prospects have diminished. With income expected to be the main driver of returns over the forecast period, the degree of income risk – whether potential tenant default or the durability of income at lease events – will be key to asset performance. It remains our view that lower risk, higher quality assets are likely to perform best over the medium term.

Fund Manager Commentary

TThe first quarter is generally fairly quiet as investors and occupiers take stock and plan for the year ahead. This year, however, activity seemed to continue on from the end of 2017 with little change. The Company was no exception, with several transactions rolling over from last year and some new activity. It was pleasing to complete a new lease on the Company's largest vacant building in January, and over the quarter we found inspection levels on all the vacant units was higher than in Q4 last year. Although lettings are taking longer to secure, the level of interest is encouraging and generally new leases have been agreed on better terms than assumed in the Company's valuations. The void level reduced over the quarter to 5.8%, and is likely to be in a range between 5%-10% throughout the year as various leases expire and new lettings are completed.

Three purchases were completed in Q1, with a total investment of just over £23m. The two industrial / logistics units are let on long leases with indexation, and although the units are older, they provide cost efficient occupation for the tenants, with future potential for redevelopment. The leisure scheme in Aintree is adjacent to the race course, and we are already actively engaged in extending leases to give long term secure income. As a result of two sales of offices with potentially large capex requirements the Company has a larger than normal cash holding (c10%) at quarter end. This larger than normal cash holding obviously has a short term impact on the level of dividend cover given the low yield on cash holdings. We are, however, considering several investment opportunities and will seek to invest the cash over the next 6 months into assets with lower capex requirements and stronger growth potential. Investing the cash in suitable investments will enable the Company to move back towards a covered dividend.

*Any data contained herein which is attributed to a third party ("Third Party Data") is the property of (a) third party supplier(s) (the “Owner”) and is licensed for use by Standard Life Aberdeen**. Third Party Data may not be copied or distributed. Third Party Data is provided “as is” and is not warranted to be accurate, complete or timely. To the extent permitted by applicable law, none of the Owner, Standard Life Aberdeen** or any other third party (including any third party involved in providing and/or compiling Third Party Data) shall have any liability for Third Party Data or for any use made of Third Party Data. Past performance is no guarantee of future results. Neither the Owner nor any other third party sponsors, endorses or promotes the fund or product to which Third Party Data relates.

Standard Life Aberdeen means the relevant member of the Standard Life Aberdeen group, being Standard Life Aberdeen plc together with its subsidiaries, subsidiary undertakings and associated companies (whether direct or indirect) from time to time.

www.aberdeenstandard.com

Contact us

Telephone

0345 266 0078

E-mail

globalclientmanagement@standardlife.com