Dec
2017

Standard Life Investments Property Income Trust

Standard Life Investments

31 December 2017

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 87.6p (Sep 2017 – 86.0p), a rise of 1.9%, resulting in a NAV total return, including dividends, of 3.3% for Q4;
- LTV of 18.0%* with uncommitted cash (post quarter end transactions) of £18.3m and RCF of £35m still available for investment in future opportunities.
- Dividend yield of 5.1% based on a quarterly dividend of 1.19p as at 31 Dec 2017 compares favourably to the yield on the FTSE All-Share REIT Index (3.6%) and the FTSE All Share Index (3.4%) as at the same date.

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)	£465.2m (at 31/12/2017)
Market Capitalisation	£368.2m (at 31/12/2017)
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	93.3 pence (as at 31/12/2017)
NAV per Ordinary Share	87.6 pence (as at 31/12/2017)
Loan to Value**	18.0% (as at 31/12/2017)

* 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)

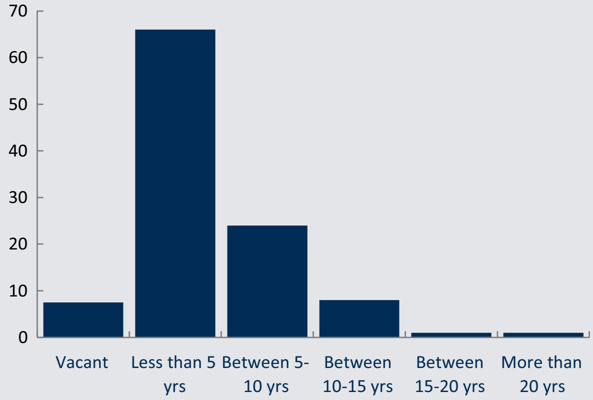
Properties	Company %
ROUK Industrial	36
South East Offices	27
SE Industrial	13
Retail Warehouse	10
High St. Retail	7
ROUK Offices	4
Central London Office	3

Top Ten Holdings

Property/Direct Investment	Location	Value Band %
Elstree Tower	Borehamwood	£18 -20m
Denby 242	Denby	£18 -20m
Symphony	Rotherham	£16 -18m
Chester House	Farnborough	£14 -16m
Pinnacle	Reading	£12 -14m
New Palace Place	London	£12 -14m
Howard Town Retail Park	High Peak	£12 -14m
Hollywood Green	London	£12 -14m
Charter Court	Slough	£12 -14m
82-84 Eden	Kingston	£12 -14m

Company Information

Lease Expiry/Break Profile

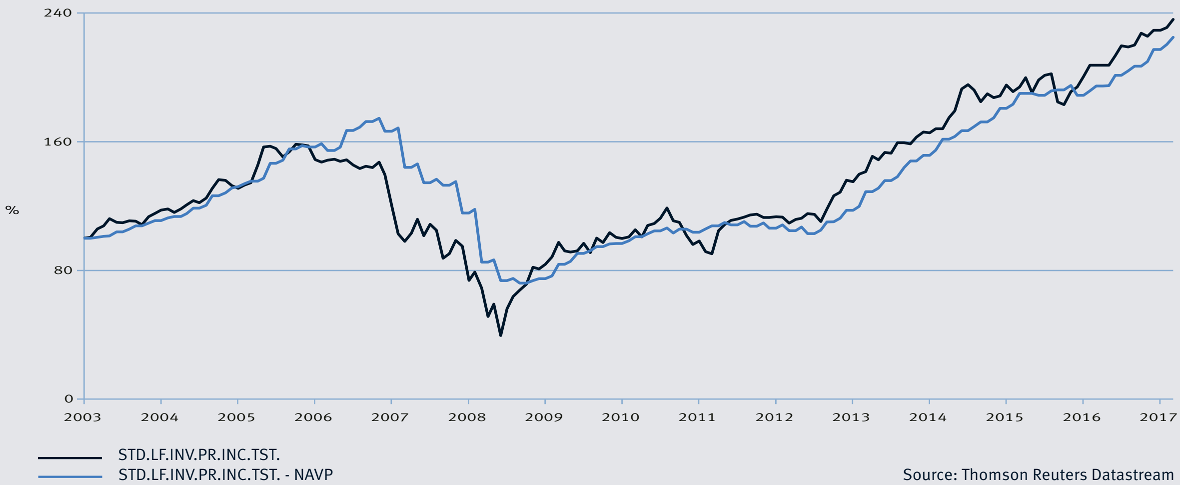


Average unexpired lease term to earliest of break or lease expiry is 4.5 years.

Portfolio Performance

	Q4 (%)	1 Year (%)	3 Years (%)	5 Years (%)
Portfolio Performance (Total Return annualised)	3.0	12.1	10.3	12.1
Benchmark (Total Return annualised)	3.2	10.5	8.5	10.6

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

As we move into 2018, economists generally expect relatively subdued economic growth for the year ahead and then some further moderation in economic momentum in 2019 as the impact of leaving the European Union becomes more pronounced. Despite the relatively weak economic backdrop, UK real estate returns were stronger than most analysts originally anticipated at the start of 2017. Up to the end of December, UK real estate recorded total returns of 11.2% for the year. Capital growth was relatively strong over the year also with values rising by 5.4%, .an improvement on the 4.5% growth in the twelve months to end September. Rents increased by 1.9% over the year which marginally improved from the increase in the year to end September.

As for the equity markets, the FTSE All Share and the FTSE 100 both produced total returns of 5% respectively over the period 30/09/17 to 31/12/17. Over the same period, listed real estate equities delivered a return of 8.3%.

In sector terms, the industrial sector has continued to demonstrate its strength, generating a total return of 21.1% in the twelve months to end December. Retail was the laggard sector in the same period, recording total returns of 7.7%. Despite the political uncertainty associated with the sector, offices recorded a total return of 8.5% in the year to end December. Retail capital growth continues to be the weakest with values increasing by 1.5% over the twelve months to end December, whilst office values grew by 3.5% over the same time frame. Rental growth remained positive over the last 12 months with office rental growth of 1.4% and industrials at 4.9%. Retail rental growth, at 0.4% continued to be considerably weaker than the other sectors.

Outlook

UK real estate continues to provide an elevated yield compared to other assets and market values are now ahead of the level they attained before the Brexit upheaval in 2016. Furthermore, lending to the sector remains prudent and liquidity remains reasonable. Additionally, development continues to be relatively constrained by historic standards, and existing vacancy rates are below average levels in most markets, although there are pockets of oversupply in some markets such as Central London. The positive fundamentals should help to maintain positive returns. In this environment, the steady secure income component generated by the asset class is likely to be the key driver of returns. The market is likely to continue to be sentiment driven in the short term as the politics and economic impact associated with the UK's withdrawal from the European Union continues to evolve. The retail sector continues to face a series of headwinds that may hold back recovery in less strong locations due to oversupply and structural issues. Within this sector, however, the prospects for retail towards the South East and Central London are expected to remain more robust. Given the backdrop of continuing heightened macro uncertainty, investors are becoming more risk averse and better quality assets are once again broadly outperforming those of poorer quality. Prime/good quality assets with stronger tenants on longer leases are likely to provide the best opportunities in the weaker economic environment we anticipate further into 2018.

Fund Manager Commentary

The focus during 2017 was relatively simple – firstly, to reduce future risk of capex/voids and to reduce exposure to retail warehousing, which we feel is going to continue to face headwinds. Secondly, we wanted to control the void level and secure future income at risk from lease expiry and void. The year ahead is likely to have a similar theme, although we have more or less completed the portfolio rebalancing, with the main focus being on maintaining and growing the income stream.

Whilst 2017 surprised with the extent of capital growth (5.4%), we remain cautious on the outlook for 2018. Initial indications are that tenant interest in industrial and office property remains relatively strong, however the prospect of mixed news on Brexit, and a slowing economy, means that we want to continue to focus on reducing voids. We completed several lease renewals in Q4 2017 and an agreement for lease on our largest void in January 2018. We are encouraged by the number of viewings on our largest remaining void – a logistics unit in Oldham - and although we are aware of several future voids over the course of 2018, early interest in them is also encouraging.

The last quarter of 2017 and the first weeks of 2018 saw continued rebalancing of the portfolio, rotating out of retail warehouse units that had future risk (Preston was over-rented and planning had recently been granted for a new park on the opposite side of town) and buying into assets that we believe tenants will want to occupy, such as well-located offices and industrial units. These transactions are summarised below:

Sales

- Sale of two retail warehouse units let to DSG in Preston for £16.35m. The sale was 5.4% ahead of the end September valuation.
- Sale of a further retail unit let to Matalan at Kings Lynn, for £4.4m, marginally ahead of the previous valuation.
- Sale of office building at 1 Dorset Street, Southampton for £5.2m, in-line with previous valuation. This sale enables the Company to avoid future capital expenditure and re-letting risk on the building.
- Post the quarter end, sale of Bathgate Retail Park in Scotland for £5.2m, further reducing the Company's retail exposure.

Purchases

- Purchase of a multi let office at 1 Station Square, in Bracknell for £12m, reflecting a yield of 6.9% on the topped up rent. The office has had a substantial refurbishment and is located adjacent to Bracknell train station and close to the newly opened town centre retail scheme which should provide scope for rental growth.
- Post the quarter end purchase of a 216,180 sq ft logistics facility in Shellingford, Oxfordshire on the established White Horse Business Park, for £11.5m, reflecting an initial yield of 6.5%. The unit is let for 25 years without a break, and is subject to five yearly upwards only rent reviews fixed at 2.5%pa.

The Company retains its undrawn Revolving Credit Facility (£35m) as well as unallocated cash (£18.3m) for reinvestment, and had an LTV of 18% as at 31 December, reflecting the relatively cautious outlook we have. The cost of the debt has been hedged, and is fixed at 2.7%, as compared to a running yield on the investment portfolio of 5.6%. The interest rate swap has a liability of £2.2m held in the NAV. This will revert to £0 at maturity.

*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

INVRT557 Q417