

InFocus

Standard Life Long Lease Property Pension Fund

September 2022

Fund objective

The fund invests in direct UK real estate including traditional real estate, income strips and commercial ground rents let on long leases to strong covenants. The fund aims to deliver returns in excess of the FT All Gilt Index + 2%p.a. over rolling five-yearly periods with less risk and volatility relative to traditional real estate.

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. Non-sterling denominated assets will typically be hedged back to sterling.

Key features

Strong track record

versus the benchmark, fund peer group and wider UK real estate market

Extensive access

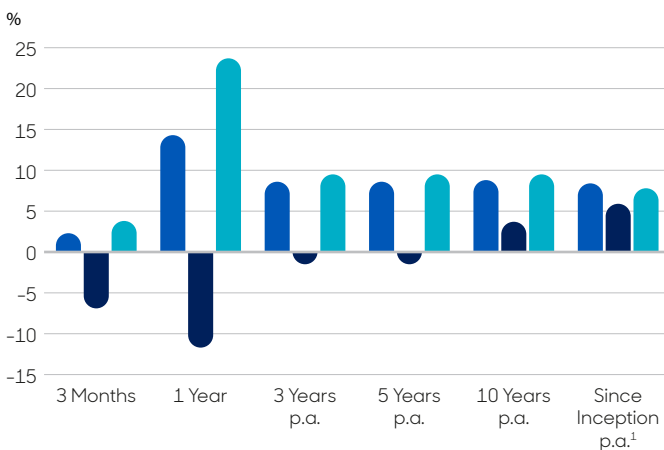
to off-market deals and stock creation

High quality assets

provide additional risk mitigation beyond strong tenant covenants, long leases and high levels of income indexation

Performance relative to gilts plus 2% benchmark

Fund delivering 8.4% p.a. returns since inception, outperforming its benchmark



- Long Lease Property Pension Fund (Gross)
- Gilts +2% benchmark²
- MSCI Monthly Index June 2022

¹ Inception 01 October 2003.

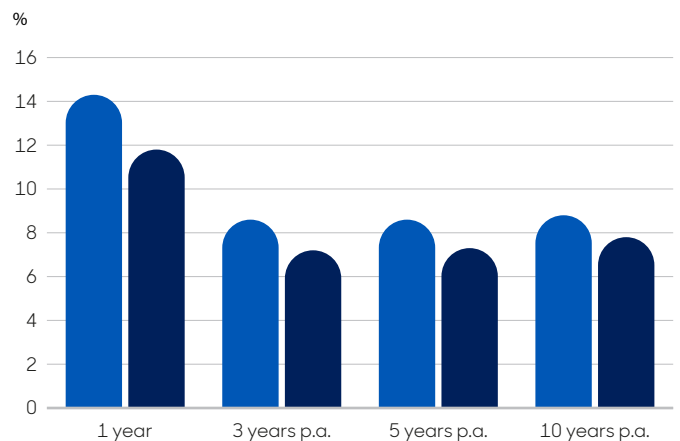
² FT BG All Stocks +2.0% p.a. Source: Bloomberg, MSCI, abrdn, 31 June 2022 Costs may increase or decrease as a result of currency and exchange rate fluctuations. This may impact what you might get back.

Source: abrdn, 30 June 2022.

Past performance is not a guide to future results.

Performance relative to long lease peer-group

Our fund has outperformed the benchmark across all time periods



- Long Lease Property Pension Fund (Gross)
- Long Lease Funds in MSCI Quarterly Index

Source: MSCI, abrdn, 30 June 2022. Performance based on underlying real estate excluding cash. Costs may increase or decrease as a result of currency and exchange rate fluctuations. This may impact what you might get back.

Past performance is not a guide to future results.



Annual returns to 30 June 2022 (%)

	2022	2021	2020	2019	2018
Fund – Gross (formal performance measure)	14.3	6.53	5.2	6.8	10.2
Fund – Net	13.7	6.0	4.7	6.3	9.6
Benchmark – FT BG All Stocks +2.0% pa	-6.9	-4.4	13.2	6.9	3.9

Relative performance is formally gauged by comparing gross fund performance and the benchmark, because the benchmark is a fixed income measure not a real estate peer group measure. Net performance is shown here as a guide. It has been calculated using a annual management charge of 50bps. Because the fund operates a tiered fee structure, clients with larger holdings will pay a lower blended fee.

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Income and capital preservation

The fund aims to provide stable, long duration, high-quality, inflation-linked income. Unlike mainstream real estate, the majority of long lease asset value is in the lease rather than the building and most income is index-linked or benefits from regular uplifts. In addition, buildings are only let to high grade tenant covenants. This all means that the assets are more resilient during economic cycles, relative to other types of real estate. As the first fund of its kind to be launched in the UK, the Long Lease Property Pension Fund can demonstrate these qualities over 18 years.

Designed for investors with pension liabilities

The fund is designed to complement an existing diversified portfolio and enhance returns relative to deferred and current pension liabilities. Given the current inflationary environment, investors view long income real estate as a welcome and reliable source of yield. Since the fund is only open to UK registered pension schemes, clients are co-invested with like-minded institutions.

Quick capital deployment

In an uncertain macro environment, competition for long income real estate assets is intense. As one of the UK's largest real estate managers, we use our extensive long income supplier network to source deals off-market. We also create our own stock by investing in pre-let forward fundings. The fund is one of the largest of its kind in the market, which allows us to buy large lot sizes whilst remaining well diversified.

Comprehensive tenant credit assessment

Credit worthiness lies at the heart of long income investing. As a house we manage £113 billion³ in fixed income assets and we work closely with our in-house teams of fixed income, equities and ESG analysts and economists to build detailed business, financial and ESG risk profiles of all our tenants, which are constantly reviewed. We act quickly to mitigate any deterioration in tenant quality.

Our rental collection stats have remained consistently high throughout the last few years as we have moved through the pandemic, and during the Global Financial Crisis, the fund's void rate remained below 1% of estimated rental value.

Real estate fundamentals are vital

The importance of assessing real estate fundamentals – including location, local market dynamics and the physical condition of the building – can't be overstated. They allow us to renegotiate lease extensions with our tenants (long before the end of the lease) from a position of strength. Most importantly, strong fundamentals ensure that the properties would be appealing to alternative tenants in the unlikely event of tenant default. Tenants would also be attracted to the reversionary value of many assets (where the market rental value is higher than the actual rental income).

Overall, the fund's total fund rental value is 14.2% above actual fund income⁴. In the long-established UK long lease market, we believe that we have been unique in creating a portfolio of this kind.

³ Source: abrdn, 31 December 2021.

⁴ Net reversionary potential is the difference between rents passing and ERV, excluding any rent free periods and voids. A positive figure indicates that the underlying rental value is above the current rents paid by existing tenants. Figure quoted includes ground rent holdings. Source: abrdn, 30 June 2022.

Key fund characteristics

- Current fund size is £3,529 million with over 80 clients⁵
- Unexpired lease term of at least 15 years (currently almost 25 years)⁵
- High occupancy rate (void rate of 1.78% of estimated rental value)⁵
- Resilient income streams with 92.1% of income index-linked or fixed⁵
- Strong covenant strength with 74.3% of tenants considered to be low risk or negligible risk⁶
- Attractive reversionary value: our fund has significantly less over-renting than the long lease market at 6.5% v 11.9%⁷
- No debt or speculative development
- Highly diversified by tenant and sector. No traditional retail in the portfolio⁸



“The fund has a robust track record, especially during times of market volatility. Key to this is our unrelenting focus on tenant strength and real estate fundamentals.”

Les Ross
Fund Manager



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⁵ Source: abrdn, 30 June 2022.

⁶ MSCI Q2 2022 based on Dun & Bradstreet credit ratings.

⁷ MSCI Q4 2021 Long Lease Funds in quarterly real estate universe.

⁸ Defined as shopping centres, retail warehouses or high street stores.

Important Information

The value of investments and the income from them can go down as well as up and your clients may get back less than the amount invested. Past performance is not a guide to future results.

Real estate is a relatively illiquid asset class, the valuation of which is a matter of opinion. There is no recognised market for property and there can be delays in realising the value of assets.

The sterling value of overseas assets held in the fund may rise and fall as a result of exchange rate fluctuations.

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