QuotedData

Initiation | Property

12 March 2019

Aberdeen Standard European Logistics Income

Poised to expand?

Aberdeen Standard European Logistics Income (ASLI) has built a portfolio of 10 assets, invested all the money it raised at IPO and has declared dividends totalling 3p per share in respect of its first accounting period (in-line with its target). Borrowing facilities are being arranged that will fund the purchase of one more asset and meet stage payments for construction projects that it has agreed to finance.

The growth of online shopping in Europe is transforming the logistics infrastructure that supports the retail market, which includes warehousing. Investors are drawn to the attractive prospective returns available from this sector and this has pushed up the prices of these assets, depressing their yields (which are income divided by value) in the process. In response, the ASLI board and manager have taken the commendable step of cutting the management fee, but have also trimmed the target dividend from 5.5% of the IPO price to 5.0% for ASLI's second accounting year.

The manager and board are confident that the European logistics sector will continue to offer many attractive investment opportunities, and their intention is to seek to expand the company in due course.

Big box logistics and last mile urban warehouses in Europe

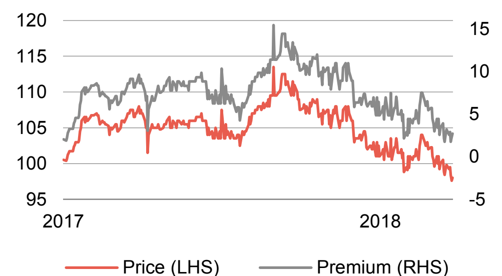
ASLI invests in a diversified portfolio of 'big box' logistics (huge regional/national warehouses) and 'last mile' urban warehouse (usually smaller warehouses located closer to the end consumer) assets in Europe (this includes both the UK and the Nordic countries but, in practice the UK is unlikely to figure in the portfolio) with the aim of providing its shareholders with a regular and attractive level of income return (targeting a 3% yield on the IPO price in its first accounting period and a 5% yield in its second accounting year, both in euro terms) together with the potential for long-term income and capital growth (target total return of 7.5% a year in euros).

Sector	European property
Ticker	ASLI LN
Base currency	GBP
Price	98.0p
NAV[1]	96.7p
Premium/(discount)	1.3%
Yield[2]	3.1%

Notes: 1) Based on last published NAV as at 31 December 2018. 2) Based on 3p forecast for initial accounting period

Share price and discount

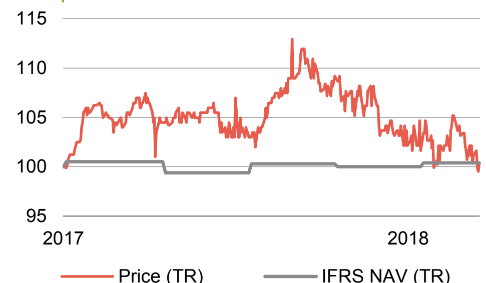
Time period 15/12/2017 to 08/03/2019



Source: Morningstar, Marten & Co

Performance since launch

Time period 15/12/2017 to 28/02/2019



Source: Morningstar, Marten & Co

Domicile	England & Wales
Inception date	15 December 2017
Manager	Evert Castelein
Market cap	183.7m
Shares outstanding	187.5m
Daily vol. (1-yr. avg.)	414k shares
Net gearing	24%*

* Marten & Co estimate

NB: Marten & Co was paid to produce this note on Aberdeen Standard European Logistics Income and it is for information purposes only. It is not intended to encourage the reader to deal in the security or securities mentioned in this report. Please read the important information at the back of this note. QuotedData is a trading name of Marten & Co Limited which is authorised and regulated by the FCA. Marten & Co is not permitted to provide investment advice to individual investors categorised as Retail Clients under the rules of the Financial Conduct Authority.

Contents

3	**Fund profile**
3	**Market outlook**
3	The ecommerce revolution
4	Logistics facilities becoming more sophisticated
5	European economic growth is muted
6	Location, location, location
6	Logistics market fundamentals – a land grab?
7	The trends shaping the future of logistics
9	**Investment process**
9	Risk limits and controls
9	Making full use of Aberdeen Standard's resource
10	Forward funding new developments
10	**Asset allocation**
11	Avignon
12	Erlensee
12	Waddinxveen
13	Zeewolde
13	Ede
13	Meung-sur-Loire
14	Flörsheim
14	Oss
15	Leon
15	Krakow
16	**Performance**
16	Peer group
17	**Dividend**
17	**Premium/(discount)**
18	**Fees and costs**
18	**Capital structure and life**
18	Borrowing
19	Continuation vote at sixth AGM, three-yearly votes thereafter
19	**The investment team**
19	Over 20 years' combined experience of European logistics investment
20	Second largest European real estate investment manager
20	Investment team biographies
21	**Board**

Fund profile

You can access the fund's website at eurologisticsincome.co.uk

Aberdeen Standard European Logistics Income (ASLI or 'the company') invests in a portfolio of 'big box' logistics and 'last mile' urban warehouse assets in Europe (this includes both the Nordic countries and the UK but, in practice the UK is unlikely to figure in the portfolio), diversified by both geography and tenant. ASLI's aim is to provide its shareholders with a regular and attractive level of income together with the potential for long-term income and capital growth (it is targeting a total return of 7.5% a year in euros).

Targeting a dividend of 5% of IPO price for 2019. Income largely inflation-linked

ASLI is targeting a dividend of 5% of the IPO price for the year ended 31 December 2019 and paid 3p per share for the period from launch to 31 December 2018. Much of ASLI's income is inflation-linked. Dividends will be paid in sterling, but the assets and the income derived from them will be predominantly held and earned in euros. The manager may use currency hedging to help reduce the volatility of the income, but there is no current intention to hedge the capital value of the portfolio.

ASLI is managed by a team within Aberdeen Asset Managers Limited led by Evert Castelein. Aberdeen Standard Investments Real Estate (part of Aberdeen Standard Investments – ASI) is the second-largest European real estate investment manager. More information on the team is available on page 20.

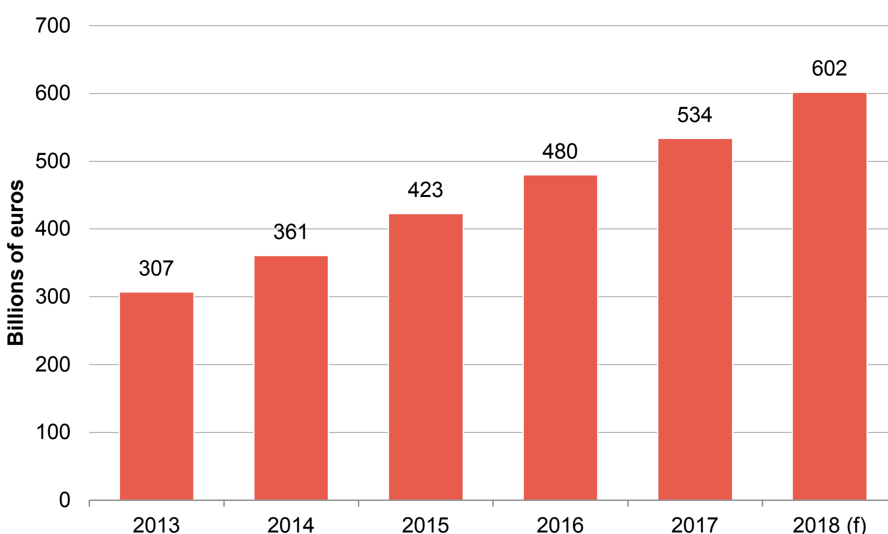
Market outlook

The ecommerce revolution

The growth of ecommerce is transforming the logistics market globally

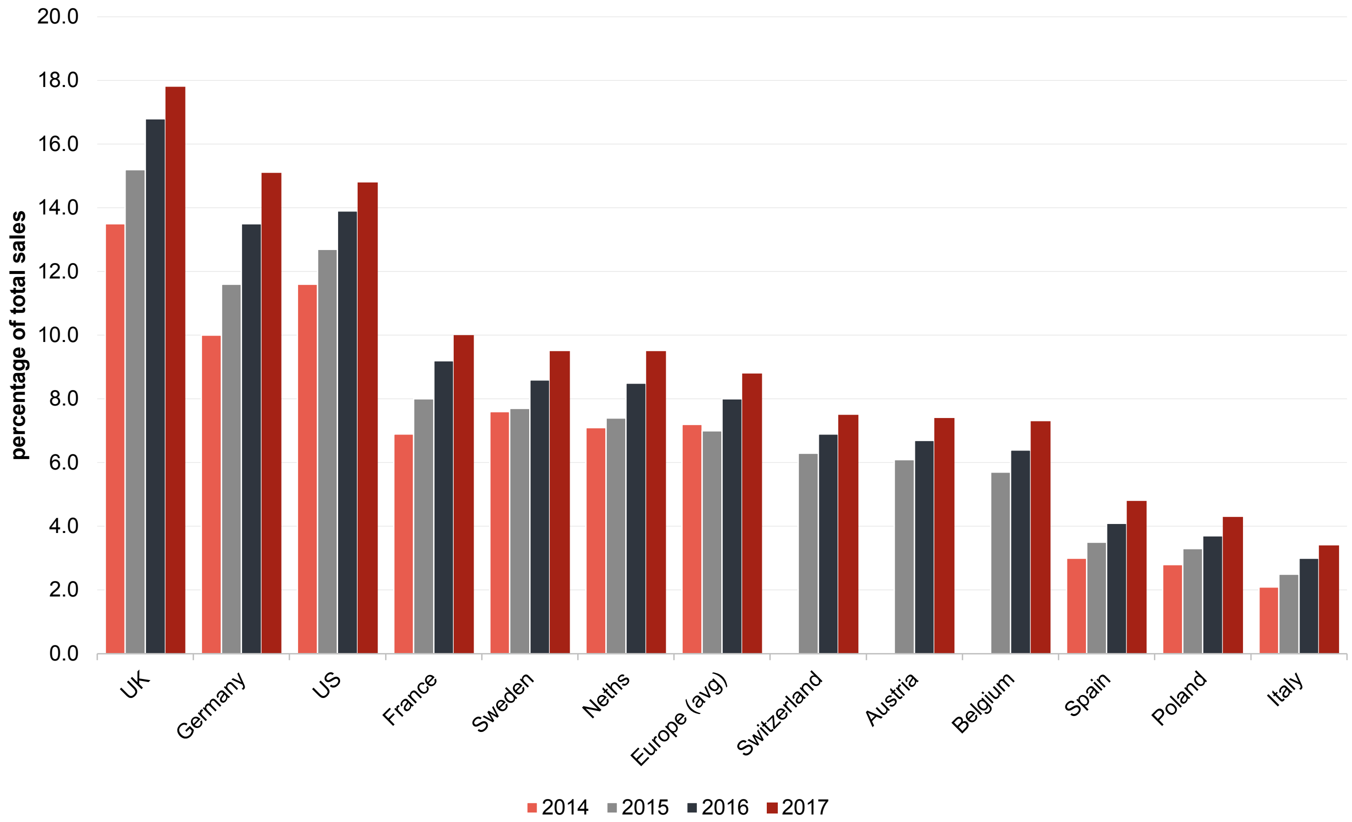
Ecommerce (online shopping) is having a material effect on the logistics market globally. Ecommerce businesses have provided significant demand for space and are helping to drive changes in the retail market (the growth of fast fashion being one example).

Figure 1: Growth of business to consumer (B2C) ecommerce in Europe since 2013



Source: Ecommerce Europe, Marten & Co

Figure 2: Increased penetration of online sales as percentage of total sales

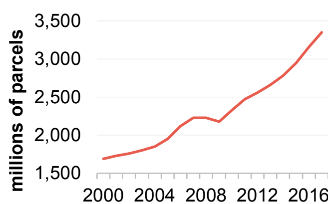


Source: Statista, Marten & Co

It is generally accepted that high-street retail is being disrupted by ecommerce. The UK is further along this journey than most western countries (even ahead of the US, as Figure 2 shows) but the proportion of purchases being made online is rising almost everywhere. This is having a dramatic effect on property markets as online retailers need the infrastructure to support national/regional distribution. Much new logistics space is being built, but the management team believes that in most areas, demand exceeds supply.

The data might suggest that there is considerable potential for further growth of ecommerce in Europe as countries such as Spain, Italy and Poland play catch-up with France and Germany.

Figure 3: German parcel deliveries



Source: BIEK KEP-Studie, Marten & Co

Germany has seen a doubling in parcel volumes since 2000, largely as a result of the advent of ecommerce. Given that it is still seeing impressive growth (the BIEK KEP-Studie 2018 says business to consumer (B2C) parcel growth in Germany was 9.7% in 2017 and they were forecasting that it would be between 8% and 9% in 2018), that translates into significant need for additional logistics facilities.

Logistics facilities becoming more sophisticated

Today's logistics facilities are more sophisticated than they would have been even 10 or 15 years ago. Simple racking systems – goods stored on wooden pallets and moved around on forklifts – are being replaced by complex automated systems.

Customers prefer new purpose-built and higher specification facilities

Whilst some older properties have been upgraded, the preference is for new purpose-built and higher-specification facilities. The eaves height is higher, to allow for mezzanine floors and maximise floor space. They are designed with better internal circulation and accessibility. Floors need to be able to bear more weight and the building's construction must be accurate enough to accommodate laser-guided machinery. Outside, the yard often needs to be large enough for multiple loading bays. The increased automation requires more power, but occupiers also often want buildings that are built to high environmental standards.

Technological innovation is substituting humans for robots in some facilities, but access to a workforce is still important when selecting warehouse locations.

European economic growth is muted

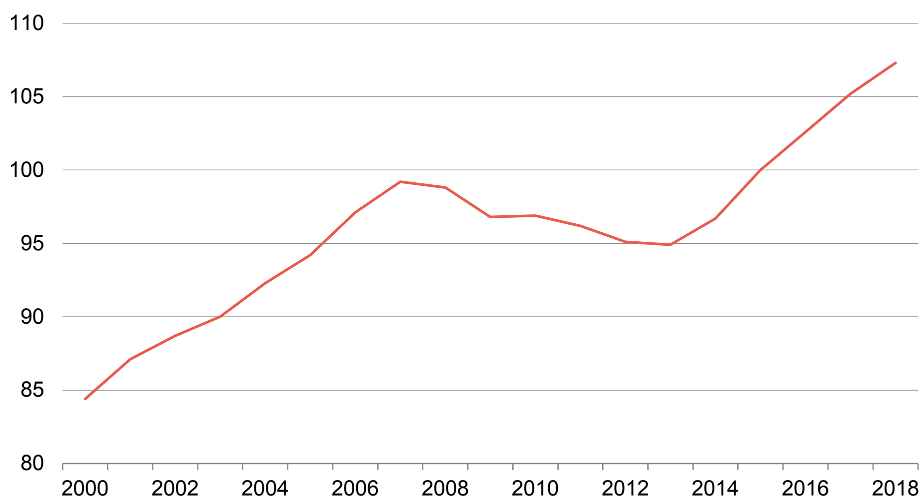
Europe is growing but more slowly

EU economic growth as measured by GDP growth is thought to be slowing as we enter 2019. European Commission (EC) forecasts are slightly more optimistic than those of the International Monetary Fund (IMF); the EC expects growth to slow to 1.5% in 2019 from 1.8% in 2018, but they are looking to a reacceleration of growth in the second half of 2019, and a better 2020. One of the brakes acting on EU growth is a sharp fall in German exports to China, which is more reflective of weak Chinese demand than problems in Germany.

European Central Bank (ECB) policy remains accommodative, with the repo rate set at zero and no move to reverse quantitative easing. Unemployment has been on a declining trend and this is supportive of retail sales growth. Official figures suggest that sales grew by 1.4% year-on-year in 2018 within the euro area, and by 2.0% across the EU as a whole.

It is worth noting that the EU figures include the UK, which has been one of the worst-performing European economies as we approach Brexit. The EU acknowledges that Brexit creates some uncertainty around forecasts for 2019. However, for the logistics industry, any increased congestion in distribution networks creates demand for more warehousing space, as people stockpile goods.

Figure 4: Deflated retail sales growth within the EU28 (excluding motor vehicles and motorcycles) 2015 =100



Source: Eurostat, Marten & Co

Location, location, location

> “when supply does catch up with demand, location will have a significant influence on valuation”

ASLI’s manager says that occupiers are becoming increasingly demanding when it comes to selecting location and the quality of the facility. Supply is increasing but this does not always meet these criteria and, when supply does catch up with demand, location will have a significant influence on valuation. The manager believes locations on the fringes of key population centres will likely be more resilient, whilst remote and/or unestablished logistics locations will be riskier. Some areas have natural advantages for example, the ports and transport hubs of the densely populated Netherlands are seen as the gateway to Europe, especially Germany and Belgium.

Edge-of-town sites are more expensive, but facilitate the speedier delivery times and ease of returns (of goods) increasingly demanded by consumers. These sites can also attract a wider range of occupiers if the manager needs to find a new tenant.

Planning is a constraint. Broadly, it is easier to add supply in continental Europe than it is in the UK. However, this is not really true in the Netherlands and parts of Germany.

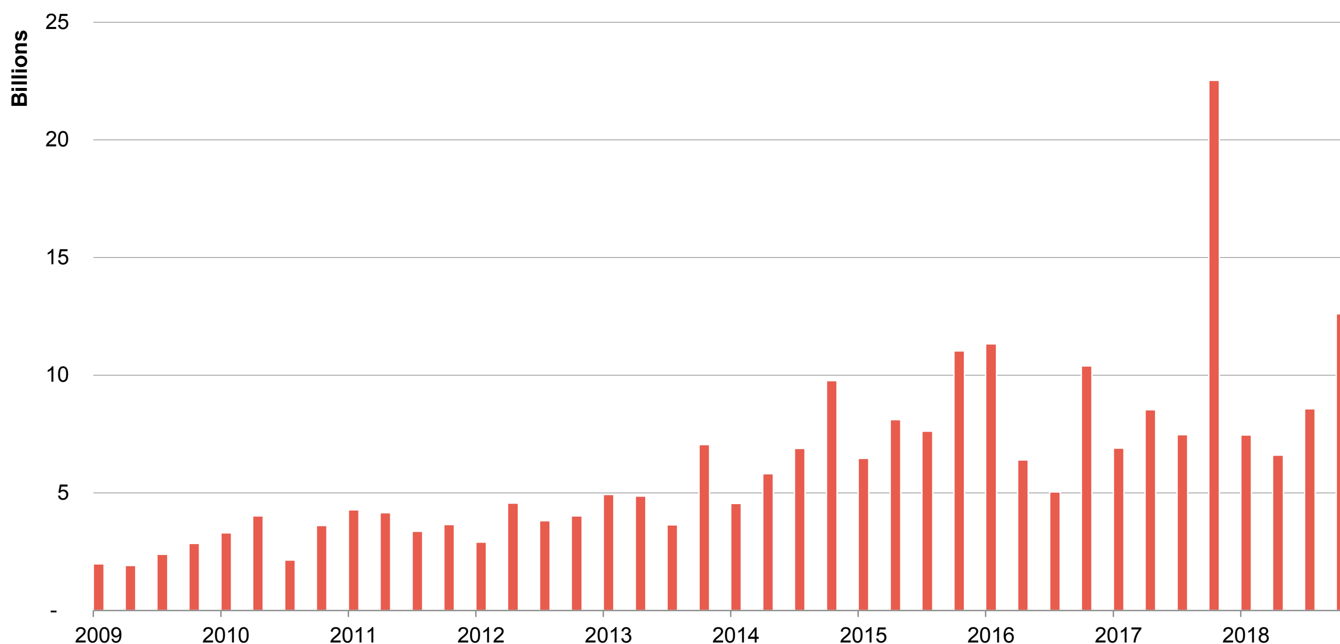
The manager thinks that urban ‘last mile’ facilities will be needed even in an environment of increasing automation.

Logistic market fundamentals – a land grab?

> €43bn invested in European logistics facilities in first nine months of 2018 alone

Given the strong fundamentals and the attractive yields available, it is perhaps unsurprising that investors are flocking to the sector. The closest listed competitor is probably Tritax EuroBox (a peer group comparison has been included on page 16). Research carried out by PWC says that €43bn was invested in European logistics in the first nine months of 2018 alone. Consequently, this is a competitive market in which to be making acquisitions.

Figure 5: Quarterly European logistics investment volume (billions of euros)



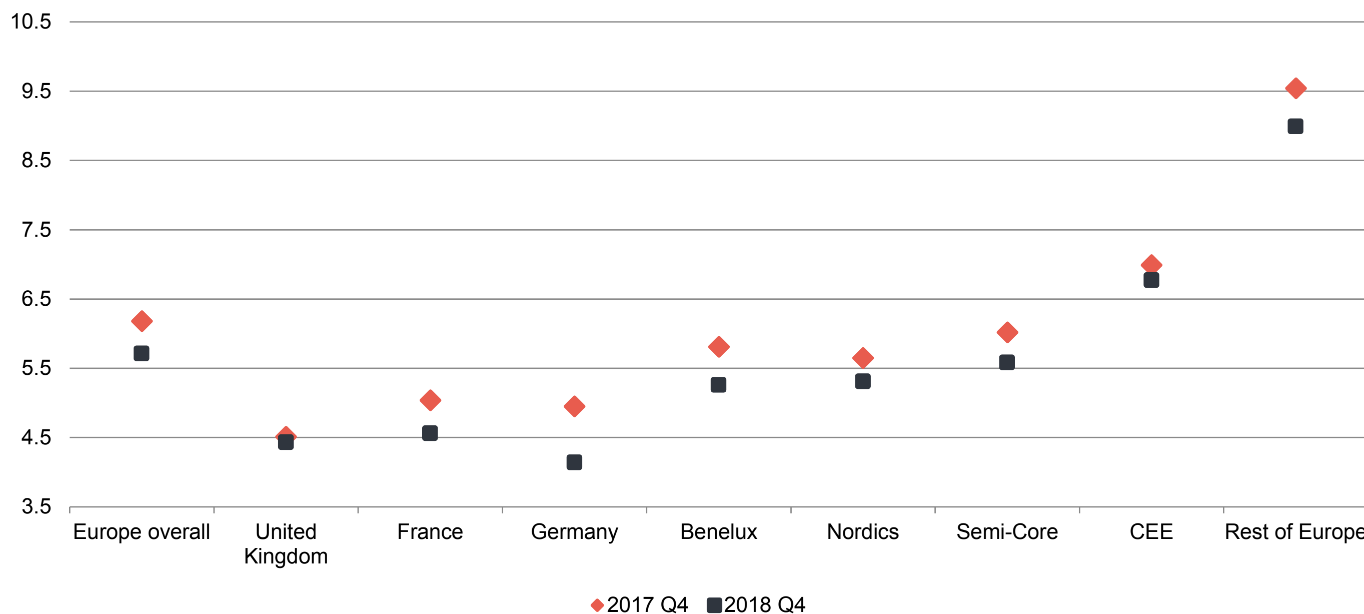
Source: ASLI, RCA

The current level of demand supports new development and ASLI is one of many investors supporting this by providing forward finance for a number of construction projects (the rationale for this is explained on page 10). There is relatively little

speculative development, which is good news, but the manager acknowledges that there is a risk of oversupply in some areas and is, therefore, favouring locations where there is high demand, limited scope for further development and facilities that might be suited to a range of prospective tenants.

ASLI's manager says that it is not particularly concerned about the growth of supply. It notes that vacancy rates are still falling (the manager says that good quality European logistics vacancy remained below 5% in Q3 2018) and this is supporting rental growth. Yields on the continent are higher than the UK but, as illustrated in Figure 6, have been tightening in all the main markets that the team follows.

Figure 6: Prime yields have been falling across Europe



Source: ASLI

> Rental growth is running ahead of inflation but the manager believes growth will not hit double digits

Today, rental growth for logistics assets is running ahead of inflation in most areas, but that was not true in Europe until recently. Ecommerce growth in Europe is accelerating. The team believes that the growth in demand can support rental growth ahead of inflation but not in double digits.

As the European logistics market grows, it is evolving. Continental leases tend to be shorter than UK equivalents, but lessors seem increasingly prepared to sign longer leases, even up to 20 years without a break. The Netherlands was one of a few markets where landlords retained responsibility for repairs and maintenance (ASLI would outsource responsibility for this to third parties, if necessary). It is interesting, though, that all of ASLI's Dutch assets have been let on triple net leases (where the tenant takes on responsibility for repairs, maintenance and property taxes).

The manager says that covenant strength is on an improving trend. There has been a pick up in mergers and acquistions activity as smaller third-party logistics operators merge or are acquired.

The trends shaping European logistics

ASI worked with a research organisation, Transport Intelligence, to produce a report on the trends shaping the future of logistics property. This was compiled over six weeks at the end of 2018/start of 2019 and is based on interviews with 123 supply chain

executives in 29 countries. The results reinforce many of the issues that were raised above.

- **Evolution** of the operating environment: 76% reported their logistics businesses had grown in 2018, 42% of them "substantially", with economic growth and changing customer needs supporting growth.
- **Supply** of warehouse and distribution facilities: 34% state that they do not have enough existing spare capacity to fulfil their growth targets, while 39% of respondents said there was a shortage of efficient space to expand into. Vacancy is tight while development levels are relatively constrained.
- **Risk**: Respondents scored "changing technology" and changes to "purchasing habits" as the two biggest risks to the success of their business.
- "**On-demand**" warehousing increasingly relevant as technology improves. 62% of respondents believe on-demand warehousing will be increasingly common in the logistics industry.
- The changing drivers of **location**: Over 50% of respondents believe the location of their logistics facilities will become a more important factor for consideration over the next five years (only 8% thought location would become less important).
- The impact of **autonomous vehicles** on location and design: 60% of respondents see autonomous trucks influencing supply chains in terms of warehouse design or location but the industry is grappling with this issue.
- Increased focus on **labour**: Labour is the largest operational cost according to 48% of respondents, supporting a push towards mechanisation, robotics and digitisation, which ultimately affects location.
- Warehouse requirements and technology focused on **efficiency**: Automated technology was rated as the most important feature required in a warehouse facility with 56% of respondents planning to invest in robotics.
- **Environmental Social and Governance (ESG)**: 71% stated that their business is undertaking initiatives to reduce or offset environmental effects in their logistics facilities – through choice and not because of immediate necessity. Initiatives include installation of LED lighting and solar panels and greater rainwater capture.
- **Brexit**: Only 11.3% of respondents believe Brexit will improve business activity, but the message from the survey is not clear-cut.

To sum up, the team believes that the trends identified in the survey highlight these key issues:

- fringe urban logistics and sites close to major conurbations will become increasingly important, yet harder to source, leading to interesting investment opportunities, but also ESG challenges;
- the design and location of facilities has never been more important, with poorly configured units unsuitable for modern technology or those in remote or unestablished locations most vulnerable to obsolescence; and
- logistics is a sector that has positive tailwinds for the long term, but it has never been more important for investors to distinguish between contracted income plays in bog box logistics and the growth opportunities in urban fringe locations.

Investment process

Favours locations at established distribution hubs and within population centres

The properties will predominantly be located at established distribution hubs and within population centres. Typically, these will come with long-term, index-linked leases. The manager may also target properties that could benefit from structural change. When selecting investments, the manager will look at aspects such as:

- location, building quality, scale, transportation links, workforce availability and operational efficiencies;
- the terms of the lease (focusing on duration, inflation-linked terms, the basis for rent reviews and the potential for growth in rental income); and
- the strength of the tenant's finances (financial covenant).

The team looks at potential acquisitions on a bottom-up basis, ensuring that the locations are suited to the lessor's target markets. Local market dynamics are more important than macroeconomic considerations.

In addition to buying operational assets, the company may forward fund new developments or commit to buying an asset once building is complete. The manager will do this when it thinks this would lead to better returns for shareholders. It may also be a good way of securing an asset at an attractive yield. These assets will be predominantly pre-let when ASLI commits to the investment.

Risk limits and controls

The following limits apply at the time ASLI makes an investment:

- ASLI will only invest in assets located in Europe;
- Maximum of 50% of gross assets in any one country;
- Maximum of 20% of gross assets in any one investment;
- Forward funded commitments will be wholly or predominantly pre-let;
- Maximum 20% of gross assets in forward funded commitments;
- Maximum 20% of gross assets exposed to any single developer;
- No investment in other closed-ended investment companies;
- Tenants must have strong financial covenants (in the manager's view); and
- No single tenant to provide more than 20% of ASLI's annual gross income.

Making full use of Aberdeen Standard's resource

ASI has 'boots on the ground' - 14 offices in Europe housing real estate professionals

When it comes to sourcing deals, ASI has 25 offices across Europe, 14 of which host real estate professionals; Evert Castelein is based in Amsterdam. He says that it is important that he has access to local knowledge and a local network. Ideas are shared across ASI's property teams through weekly deal allocation calls. All prospective investments are listed and reviewed on an internal portal and first right to deals cycles between the teams to ensure that all clients have fair access to prospective investments.

For the most part, the manager finds itself competing against local investors. However, there are quite a few pan-European investors looking at the largest investment grade properties.

The manager will check the strength of covenants (the likelihood of the tenant being able to pay the rent when it falls due) with external sources such as Dun & Bradstreet

but it also cross-correlates this with information drawn from ASI's equity and credit teams.

Forward funding new developments

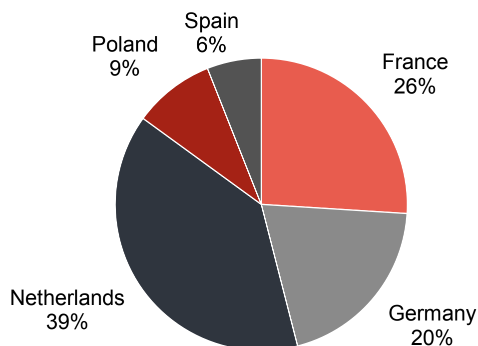
Forward funding developments can be a less competitive way of accessing deals

ASLI does not undertake speculative development, but has forward funded a selection of developments on the basis that these are at least 50% pre-let. There are good reasons for this: these deals tend to be agreed off-market and so are not as exposed to competitive pressures; new developments do not attract stamp duty; and you can be sure that the tenant is committed to your location.

ASI has a strong reputation within the European property market and is therefore a favoured partner for developers and lenders. Deals are usually structured so that ASLI makes an upfront payment (typically 20%) and then makes monthly instalments dependent on progress. The developer pays a coupon to ASLI during the development.

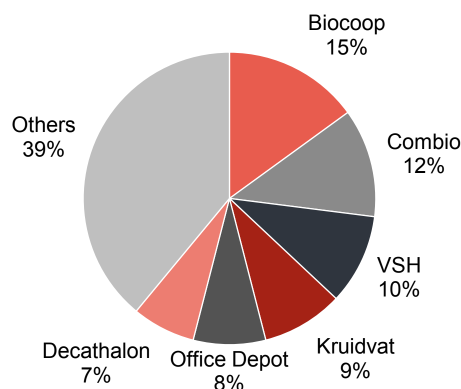
Asset allocation

Figure 7: Asset allocation by country (10 assets)



Source: ASLI

Figure 8: Asset allocation by tenant (10 assets)



Source: ASLI

ASLI recently completed the acquisition of an asset in Krakow, Poland. Following this deal, ASLI holds 10 assets. The portfolio is distributed across Europe, as is evident in Figure 7. To get to this position, the manager evaluated over 120 potential opportunities, including portfolios of assets, worth about €6bn in total. Bids were made on 25 properties. Half of all the deals done were off-market. Some of the assets they failed to acquire were located in the Nordic, Italian, Austrian and Portuguese markets and assets within these areas may yet end up in the portfolio. There is a limit of 50% exposure to any one country.

ASLI's 10 assets are distributed across five countries and its 26-strong tenant base is relatively well diversified. More information on the underlying tenants is given below. The portfolio has a weighted average unexpired lease term (WAULT) of around 10 years including break options.

Figure 9: ASLI portfolio as at 16 February 2019

Location	Tenant(s)	Purchase price (€m)	Net initial yield (%)	WAULT (years)	Gross lettable area (sqm)	Built
Avignon, France	Biocoop	44.5	5.0	9.6	28,571	2018
Erlensee, Germany	Bergler, DS Smith, Fenthol & Sandtman, Linde, MSG Frucht	33.3	5.2	6.4	26,358	2018
Waddinxveen, Netherlands	Combilo International	33.0	5.0	15.0	28,131	1983, 1994, 2002, 2018
Zeewolde, Netherlands	VSH Fittings	29.3	5.0	15.0	36,250	2019
Ede, Netherlands	Kruidvat	26.5	5.9	9.1	39,840	1995,2005
Krakow, Poland	Nine tenants including DS Smith and Lynka	24.5	6.8	5.3	34,839	2018
Meung-sur-Loire, France	Office Depot	23.5	4.7	8.0	30,180	2004
Flörsheim, Germany	Maintrans, Duhome, Ernst Schmitz, Hűhoco, Hangcha Europe	20.1	5.2	8.5	17,809	2015
Oss, Netherlands	Orangeworks	15.7	5.3	15.0	12,534	2019
Leon, Spain	Decathlon	15.3	6.0	10.0	32,637	2019
Total/weighted average		**265.7**	**5.3**	**10.1**	**287,149**	

Source: ASLI

Avignon

Figure 10: Avignon

Source: ASLI

ASLI paid €44.5m for this asset, making it the largest asset by value within the portfolio. It comprises 28,571sqm arranged as four cells, two of which (1/3 of floor space) are given over to cold storage. The manager says the building has been built to a sustainable design (it boasts an HQE excellent certificate – a French measure of construction excellence and sustainability), including rooftop solar panels, with 10.5m clear height in the dry cells and 8.5m in the cold storage cells, 24 loading doors and office space (11% of the facility).

The asset is in the Noves suburb of Avignon with good road links to Marseille, Lyon and Montpellier.

The buildings have a WAULT of 12 years (nine years including breaks) and rents are 100% linked to ILAT.

The tenant is Biocoop, the leading organic supermarket in France with over 500 stores located across the country. It migrated its south-east distribution centre (one of four centres) to Noves from Sorgues, where it had an 18,000sqm facility constructed in 1984.

Why does the manager like it? The manager says that the building design should attract low maintenance costs. Land supply in the area is constrained and the building comes with a tenant with a strong covenant and index-linked rent.

Erlensee

Figure 11: Erlensee

Source: ASLI

ASLI paid €33.3m for this asset. It comprises two multi-let buildings of 10,919 and 15,431sqm. The manager says they have been built to modern specifications, with 10.5m clear height, a 5t/sqm (tonnes per square metre) floor loading capacity and 50 loading doors. 10% of the space has been given over to offices.

The asset is 26km north-east of Frankfurt.

The buildings have a WAULT of 6.4 years and no breaks, and between 80% and 100% of rents are linked to CPI.

The tenants are:

- Bergler (a third-party logistics operator);
- DS Smith (a packaging company and FTSE100 Index constituent);
- Fenthol & Sandtman (a third-party logistics operator);
- Linde (a chemicals company with revenues in 2017 in excess of €17bn); and
- MSG Frucht (a German fruit and vegetable supplier, and a subsidiary of Compass Group).

Why does the manager like it? The manager says the property is in a prime logistics location in an area with a strong economy. The tenant base is diversified (the largest accounts for no more than 30% of the rent). Rents are rising in the area and the rents for this asset are largely linked to inflation.

Waddinxveen

Figure 12: Waddinxveen

Source: ASLI

ASLI paid €33.0m for this asset. The earliest part of the site was constructed in 1983 but part was refurbished to modern specifications in 2018. 6% of the area is being used as office space. The total area is 28,131sqm but the tenant has an option to extend by 5,000sqm. Free height varies between 7m and 11m and floor loading capacities range from 1.0t/sqm and 3.5t/sqm. There are 51 loading doors in a cross-dock formation.

The asset is located within the Randstad conurbation of the Netherlands (8m consumers live within one hour's driving distance). There is little vacant space in this vicinity (about 2%).

The buildings have a WAULT of 15 years with no break and rents are 100% linked to CPI with a 2.5% cap.

The tenant is Combilo International, a fruit and vegetable import/export and packing business with a diversified customer base.

Why does the manager like it? The manager says that the low vacancy rate supports future rental growth but, in the meantime, the long index-linked lease with a strong covenant provides an attractive income stream. The tenant is covering maintenance costs.

Zeewolde

Figure 13: Zeewolde

Source: ASLI

ASLI paid €30.0m for this asset which will comprise a single building of 36,250sqm. The building is under construction and due for completion in July 2019 (ASLI is receiving a 2.55% coupon ahead of completion). The building will have 12.2m free height, a 5t/sqm floor loading capacity with 37 loading doors, a BREAAM rating of very good and sprinklers.

The asset is in the heart of the Netherlands near the fast-growing town of Almere. Inditex/Zara has recently built a 100,000sqm facility here, underlining the area's desirability as a logistics hotspot. In addition, nearby Lelystad airport is being expanded.

The building will be let on a new 15-year triple net lease with no break and rents 100% linked to CPI (but capped at 2.4%).

The tenant will be VSH Fittings (a Dutch pipes and fittings business, and a subsidiary of Aalberts Industries), which is consolidating its business in this location.

Why does the manager like it? The manager says that the €41/sqm rent is low, given the building's central location and ample labour supply. The triple net lease is welcome in a market where landlords are usually responsible for repairs and maintenance. The inflation-linkage is also good news.

Ede

Figure 14: Ede

Source: ASLI

ASLI paid €26.5m for this asset. The 39,840sqm building was originally constructed in 1999 but a third of the building was fully renewed in 2018 with new floor installation. The manager says the property has a free height of 12.2m and a floor loading capacity that varies between 2.5t/sqm in the oldest sections and 10t/sqm in the refurbished area. It has 23 loading doors and 290 parking spaces, and 8% of the lettable area is given over to office space.

The asset is centrally located within the Netherlands in an area of just 3.9% vacancy for logistics assets.

The buildings have a WAULT of 9.1 years with no break and the rents are 100% linked to CPI.

The tenant is Kruidvat, a pharmacy chain that is part of the AS Watson Group.

Why does the manager like it? The manager likes the location, the strong tenant covenant and the attractive 5.9% yield (especially given the inflation-linkage and WAULT).

Meung-sur-Loire

Figure 15: Meung-sur-Loire

Source: ASLI

ASLI paid €23.5m for this asset. It comprises a single building of 30,180sqm, with free height between 12m and 17m, a 5t/sqm floor loading capacity, sprinklers and 28 loading doors. Site cover is low at just 29%.

The asset is 27km southwest of Orleans and is suited to serving Paris as well as central and southern France. A number of major logistics firms operate from this area, including DHL.

The asset has a WAULT of 8.0 years with no break and rents are 100% inflation-linked against ILAT.

The tenant is Office Depot, which has 59 outlets in France and services the online market through Viking Direct.

Why does the manager like it? The manager likes the location's suitability as a national distribution centre. The low site cover offers the prospect of asset management opportunities and the existing asset is built to modern specifications and benefits from index-linked rents.

Flörsheim

Figure 16: Flörsheim

Source: ASLI

Flörsheim was ASLI's first acquisition (completed February 2018). ASLI paid €20.1m for this asset and it has since been valued at €20.7m. It comprises two multi-let buildings of 10,762sqm and 7,047sqm. The manager says they have been built to modern specifications, with 10m clear height, a 5 t/sqm floor loading capacity and 22 loading doors (1,670 sqm of office space).

The asset is 15km from Frankfurt Airport.

The buildings have a WAULT of 8.5 years (4.8 years including breaks) and rents are 100% linked to CPI.

The tenants are:

- Maintrans (a third-party logistics firm);
- DuHome (an ecommerce retailer);
- Ernst Schmitz (a third-party logistics firm);
- Hühoco (a global coatings and materials business); and
- Hangcha Europe (a forklift and material handling business).

Why does the manager like it? The manager says that there is limited logistics capacity in the Rhine-Main region, with less than a 5% vacancy rate. The local economy is strong and the building is of good quality. The diversified tenant base and the CPI-linked rents are a further source of comfort.

Oss

Figure 17: Oss

Source: ASLI

ASLI paid €15.7m for this asset. It comprises a single 12,534sqm building under construction and due for completion in July 2019. ASLI is receiving a 5.5% coupon while the asset is under construction. The manager says the building will have 10m clear height, a 5t/sqm floor loading capacity and five loading doors initially, with potential for an additional 10. There is an option to extend the building by an additional 3,000 sqm.

The asset is located between the port of Rotterdam and the industrial region of the Ruhr. It is a logistics hotspot, popular with the likes of Heineken. This means vacancy rates in the area are very low (around 2%).

The building will have a new 15-year triple net lease with no break and rents will be 100% linked to CPI.

The tenant is Orangeworks, a Dutch food-processing and handling machinery business.

Why does the manager like it? The manager likes the location's strong fundamentals, the triple net lease (in a market where landlords are typically responsible for repairs and maintenance), the length of the lease and the 100% inflation-linkage.

Leon

Figure 18: Leon

Source: ASLI

ASLI paid €15.3m for this asset, which makes it the smallest asset in the portfolio by value. It has the second highest NIY, however (6.0%), and will comprise three buildings with a total floor area of 32,637sqm (which could suit a multi-let format, if necessary). The manager says it is being built to modern specifications (completion is due in Q1 2019), with 10.7m free height, a 5t/sqm floor loading capacity, 29 loading doors, and sprinklers. The tenant has a five-year option to extend the building by 10,000 sqm.

The asset is outside Leon in the north-west of Spain.

The asset has a WAULT of 10 years with no break and rents are 100% linked to CPI.

The sole tenant is Decathlon, the sportswear retailer, it is relocating here from Pamplona and using the facility to service its 40 shops in the region.

Why does the manager like it? The manager says the low rent (€32/sqm) is very competitive and index-linked. The extension option creates an opportunity to add value.

Krakow

ASLI paid €24.5m for this asset, equivalent to a NIY of 6.8% (the highest in the portfolio). The building, constructed in 2018, provides approximately 31,000sqm of warehousing and 4,000sqm of office space with “ample” loading docks, a free height of 10 metres and a floor load capacity of 5t/sqm.

The facility is in an established logistics area alongside the A4 motorway, giving access to Germany, Wroclaw and Silesia and also benefitting from proximity to Krakow and Katowice international airports.

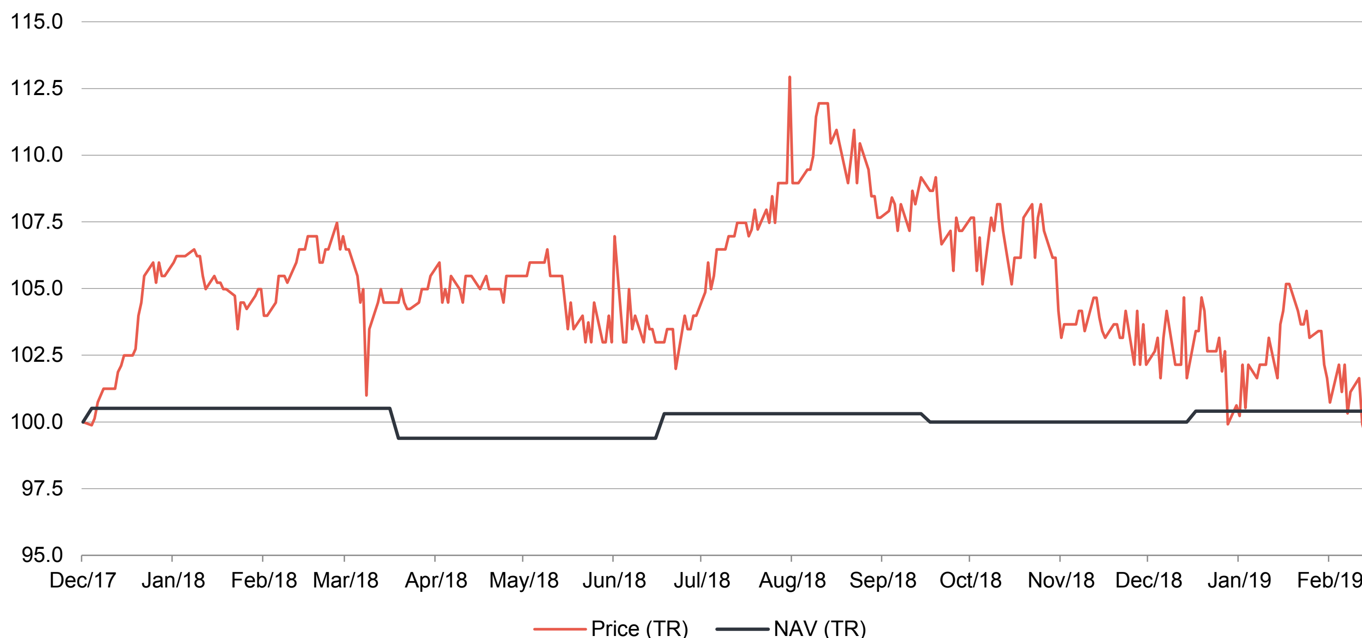
The asset has a WAULT of 4.6 years (from 1 March 2019) and all leases are 100% linked to CPI. Rents are paid in euros.

This is a true multi-let asset, with nine tenants. ASLI has not released the names of each of these, but we do know that they include DS Smith (a tenant at Erlensee) and Lynka (a provider of textile printing services).

Why does the manager like it? The flexible structure allows for future reconfiguration if required. In addition, Evert says: “Growing demand for logistics space in one of the most affluent urbanised areas of Poland, together with the diversified income stream make this a very attractive asset.”

Performance

Figure 19: ASLI performance since launch



Source: Morningstar, Marten & Co

Up-to-date information on ASLI is available on the QuotedData website

ASLI's NAV has made modest progress since launch, with rising property values offset by expenses incurred in the establishment of the portfolio and the initial dividends not quite covered by earnings. At ASLI's year end, the assets will be valued at fair value by CBRE, chartered surveyors. Tightening yields across Europe, as evidenced in Figure 6 on page 7, might suggest that the NAV will rise.

Acquisition costs and fees associated with securing debt facilities are amortised over time.

Peer group

Figure 20: UK listed companies focused on logistics and industrial assets

	Market cap (GBPm)	Premium/ (discount) (%)	Yield (%)	Investment focus
Aberdeen Standard European Logistics	184	1.3	5.1	European logistics
Tritax EuroBox	321	(5.4)	5.1	European logistics
Hansteen	403	(2.3)	6.4	Industrial and logistics, UK and Belgium
LondonMetric Property	1,346	11.3	4.2	UK logistics
SEGRO	7,143	1.3	2.6	UK and European logistics and industrial
Stenprop	322	(20.1)	6.5	UK multi-let industrial plus legacy portfolio
Tritax Big Box	2,417	(5.6)	4.8	UK logistics
Urban Logistics REIT	104	(4.5)	5.2	UK logistics
Warehouse REIT	169	(0.7)	5.9	UK logistics

Source: Marten & Co, Bloomberg

Most of those investing in European logistics are unlisted funds or subsidiaries of larger groups. The listed peer group shown in Figure 20 consists chiefly of companies focused

on UK industrial and logistics assets. Tritax EuroBox is ASLI's closest competitor. Hansteen sold its Dutch and German industrial assets in 2017 and now has a small allocation to Belgium. SEGRO owns a mixture of 'big box', urban and industrial space, about a third of which is located in continental Europe. Stenprop is a South African company that listed in London in June 2018. It is transitioning its portfolio to focus on UK multi-let industrial assets.

ASLI's premium rating may help when it comes to expanding the company

ASLI is, for the moment, at the smaller end of this peer group, but investors are prepared to ascribe a premium rating to it, which should help when it comes to growing the company. The yield is competitive relative to peers.

Dividend

1.3p final dividend for 2018 payable on 22 March 2019

References to 'dividends' in this note' are intended to cover both dividend income, and income which is designated as an interest distribution for UK tax purposes and therefore subject to the interest streaming regime applicable to investment trusts.

ASLI was targeting and has declared dividend payments of 3p per share in respect of the period from launch to 31 December 2018. Future payments will be made quarterly.

For the year ended 31 December 2019, ASLI is targeting a dividend of 5% of the IPO price (reduced from 5.5% for the reasons outlined on page 1). The calculation will be performed in euros but the dividend will be paid in sterling.

Premium/(discount)

Figure 21: Premium since launch

Source: Morningstar, Marten & Co

ASLI says that it plans to promote its shares to a broad range of investors, which have the potential to be long terms supporters of the strategy. These marketing efforts have various strands but include:

- participating in the investment manager's investment trust promotional programme;

- support from the investment manager's wider marketing of investment companies; and
- the investment manager's investor relations team, in conjunction with ASLI's broker, promoting ASLI's shares through regular contact with both current and potential investors.

Flexibility to issue and buyback shares to control premium/ discount

In the event that the ordinary shares trade at a premium, ASLI has the authority to issue new shares that could be used to satisfy any excess market demand.

Similarly, should the shares trade at a discount, ASLI has authority to repurchase up to 14.99% of its issued share capital. ASLI says that the directors will consider repurchasing ordinary shares in the market if they believe it to be in shareholders' interests and as a means of correcting any imbalance between the supply of and demand for the ordinary shares.

Fees and costs

Tiered management fee and no performance fee

The AIFM is a subsidiary of ASI sub-delegating investment management to a subsidiary based in Dublin. Under the terms of the management agreement, as amended in December 2018, the AIFM is entitled to receive a tiered annual management fee as follows:

- 0.75% of net assets up to €1.25bn
- 0.60% of any net assets in excess of €1.25bn.

No annual management fee was charged on uninvested funds until 75% of the net proceeds of the initial issue had been invested. The annual management fee is calculated and paid quarterly in arrears and there is no performance fee.

The management agreement has a two-year initial term. It can be terminated on 12 months' notice, by either side, provided that such notice does not expire prior to the end of the initial term.

The AIFM provides services in respect of company secretarial services, day-to-day administration, accounts preparation and NAV publication. The accounting and administrative functions are delegated to State Street Bank and Trust Company (London).

Capital structure and life

ASLI has 187,500,001 ordinary shares in issue and no other classes of share capital

The fund's year end is 31 December. It expects to publish its first annual report in April 2019 and hold its first AGM in June 2019.

Borrowing

ASLI intends to use gearing (borrowing) with the aim of enhancing shareholder returns. All financing decisions will be organised by the manager's in-house treasury team (located in Frankfurt) and must be approved by the investment committee.

Targeting 35% loan to value

The manager has announced that the average loan to value (debt relative to gross assets) over the long term will be 35%. This will typically be held at the asset level, rather than the company level, and lenders may or may not have charge over all, or some, of the company's assets. This will depend on what the company deems to be optimal.

ASLI says that borrowings will typically be non-recourse (in other words the lender cannot pursue ASLI for payment) and secured against individual assets or groups of assets with no cross-collateralisation (lenders would not be able to force the sale of assets that they had not lent against in the event of a default). Loans will also have no or limited covenants (as far as possible). The manager would prefer to have fixed-rate loans with long maturities and bullet point repayments. It will aim to avoid taking on debt that amortises.

Aggregate borrowings will always be subject to an absolute maximum, calculated at the time of drawdown, of 50% of gross assets. Furthermore, where borrowings are secured against a group of assets, any such group of assets shall not exceed 25% of ASLI's gross assets so as to ensure that investment risk remains suitably spread.

Typically, financing will be provided in local currency. On 15 February ASLI announced it had arranged €33m financing secured against its French assets (Avignon and Meung-sur-Loire) for seven years at "an attractive all-in interest rate" and, on 6 March 2019, ASLI announced that it had entered into agreements with DZ HYP AG, the German real estate bank, for the provision of long term financing secured at local level over the company's assets in Erlensee and Flörsheim, Germany. The loan facility secured over the company's Erlensee property was arranged for a total value of EUR17.8 million and fixed for a 10-year term at an all-in interest rate of 1.62% per annum. The Flörsheim debt facility is for a total value of EUR12.4 million and fixed for a seven-year term at an all-in interest rate of 1.539% per annum.

Continuation vote at the sixth AGM, three-yearly votes thereafter

ASLI has an unlimited life but shareholders will be offered a continuation vote at the company's sixth annual general meeting (AGM). Thereafter, shareholders are to be offered continuation votes at three-yearly intervals. In the event that a continuation resolution fails to pass, the directors will cease further investment, the properties in the portfolio will be sold in an orderly fashion and the net funds available for distribution will be returned to shareholders.

The investment team

Over 20 years' combined experience of European logistics investment

ASLI's investment team is made up of Evert Castelein (fund manager), James Wythe (assistant fund manager), Attila Molnár (assistant fund manager) and Andrew Allen (global head of investment research, real estate). The team has over 20 years' combined experience of investing in European logistics and Aberdeen Standard Investments is currently managing €2.6bn of logistics warehouses in Europe. This comprises 144 logistics properties, across 10 countries, with an average lease length of 8.0 years. The team's logistics tenants include Amazon, PostNord, DPD, DHL,

Wickes, Tesco, TNT, BUNZL, Hermes and Swissport. Team member biographies are included below.

Second largest European real estate investment manager

According to data from the Tower Watson Global Alternative Survey 2017, Aberdeen Standard Investments Real Estate is the second-largest European real estate investment manager. Reflecting this, it has an extensive regional presence with 25 offices across Europe, 14 of which have real estate professionals. The team says that this 'boots on the ground' presence provides for strong local insight and deal flow.

Aberdeen Standard Investments manages 56 real estate portfolios in Europe, with a total gross asset value of €43.5 billion. The broader real estate team comprises over 280 investment professionals including:

- 123 fund and portfolio managers;
- 81 asset managers;
- 23 transaction managers;
- 18 research/ 18 business management; and
- a wide array of further local supporting functions.

Investment team biographies

Evert Castelein – fund manager (Amsterdam)

Evert has worked as a fund manager for the Aberdeen European Balanced Property Fund. He joined Aberdeen in 2008, from Asset Appraisal Systems, where he was a senior analyst within the property research and strategy team. Besides research and portfolio analysis, Evert has been responsible for the asset management of a small German fund, and he has previously worked for FGH Bank as a research analyst. Evert graduated with a Masters degree in Economic Geography from the University of Groningen and has a Masters of Science in Real Estate (MSRE). He speaks English, Dutch, German and French.

James Wythe – assistant fund manager

James is assistant fund manager of ASLI and is based in Amsterdam. He joined what was Standard Life Investments in 2016, just before the merger, to assist with the management of a balanced Dutch and Swedish portfolio. He took over responsibility for managing that portfolio during 2018 before joining ASLI team in 2019.

James graduated with a BSc in Biology from The University of Nottingham and has an MSc in Real Estate from the University of Reading. He is also a member of the RICS.

Attila Molnár – assistant fund manager (Frankfurt)

Attila is fund manager at Aberdeen Immobilien KAG based in Frankfurt, Germany. Attila joined Dresdner Bank's property fund management business (DEGI) in 2006, shortly before the business was acquired by Aberdeen. Attila has been involved from the beginning in the planning and establishment of a new product line for institutional clients and joined the fund management teams of those funds. Now he is responsible for two institutional funds. Prior to this, Attila worked for PricewaterhouseCoopers where he was responsible for diverse audit and due diligence projects in the property fund business.

Attila graduated with a MSc in Accounting and Finance from Budapest University of Economics. He speaks German, Hungarian and English.

Andrew Allen – global head of investment research, real estate

Andrew Allen is global head of investment research, real estate and a member of the global property management committee. He manages a team of analysts located in Singapore, Norway, Germany and the UK and is primarily responsible for the implementation of property research and strategy. Andrew joined Aberdeen in 2011 from Oriel Securities (now Stifel) where he was a partner and analyst in the real estate securities team. Previously, Andrew was a founding partner and head of research and strategy at Cordea Savills (now Savills Investment Management). He had additional responsibility as the fund director for the Charities Property Fund. Prior to that, Andrew held the role of senior manager within the property forecasting (Europe) team, at Henderson Global Investors, from where he was seconded to Pradera Asset Management for a year, before which he was a senior analyst at Property Market Analysis.

Andrew graduated with an MSc in Property Investment from Cass Business School and a BSc in Economics and Business Finance from Brunel University.

Board

The ASLI board has five members, all of whom are independent of the manager and do not sit together on other boards.

Figure 22: Board member - length of service and shareholdings

Director	Position	Appointed	Length of service (years)	Annual director's fee (GBP)	Shareholding
Pascal Duval	Chairman	15 December 2017	1.1	40,000	30,000
Caroline Gulliver	Chair of the audit committee	15 December 2017	1.1	35,000	25,000
John Heawood	Director	15 December 2017	1.1	30,000	20,000
Tony Roper	Director	15 December 2017	1.1	30,000	30,000
Diane Wilde	Director	15 December 2017	1.1	30,000	20,000

Source: Marten & Co

Pascal Duval worked for Russell Investments in EMEA for 22 years. During this time he opened its Paris office, developed its Continental European and Middle-East activities and held multiple senior executive responsibilities across EMEA in wholesale and distribution, as well as with asset owners. Pascal was appointed CEO of EMEA in 2011 and became a member of Russell Investment's Global Executive Committee. Pascal left Russell Investments in January 2017 and founded Duval Capital LLP, a research and advisory company in wealth and asset management. Pascal holds a BA in Law from Paris X University and is also a graduate of the Institut d'Etudes Politiques de Paris (Sciences-Po, Paris) and INSEAD.

Caroline Gulliver is a chartered accountant with over 25 years' experience at Ernst & Young LLP, latterly as an executive director before leaving in 2012. During that time, she specialised in the asset management sector and developed an extensive experience of investment trusts. She was a member of The Association of Investment Companies' Technical Committee and also the AIC SORP working party for the revision to the 2009 investment trust SORP. Caroline is also a non-executive director and audit committee chair for JP Morgan Global Emerging Markets Income Trust Plc, International Biotechnology Trust Plc and Civitas Social Housing Plc.

John Heawood has 40 years' experience as a Chartered Surveyor advising a broad range of investors, developers and occupiers. In 1987 he became a partner, and

subsequently a director, of DTZ responsible for the London-based team dealing with industrial, logistics and business park projects across the UK. John was appointed to the board of SEGRO plc in 1996 and was responsible for its UK business for the next 12 years. From 2009-2013 he was managing director of the Ashtenne Industrial Fund, a £500 million multi-let industrial and logistics portfolio managed by Aviva on behalf of 13 institutional investors. John is currently a non-executive director of Place Partnership Limited, a member of the finance and general purposes committee of the Royal Veterinary College and a trustee of Marshalls Charity, a Southwark-based charity established in 1631. John holds a BSc in Estate Management and a MSc in Rural Planning Studies from the University of Reading.

Tony Roper started his career as a structural engineer with Ove Arup and Partners in 1983. In 1994 he joined John Laing Plc to review and make equity investments in infrastructure projects both in the UK and abroad. In 2006, Tony joined HSBC Specialist Investments (part of the HSBC Holdings group) to be the fund manager for HICL Infrastructure Company Limited. Tony continued in this role until May 2017, during which time HICL grew from £250 million to circa £2.8 billion. In 2011, Tony was part of the senior management team that bought HSBC Specialist Investments from HSBC, renaming it InfraRed Capital Partners. Tony is a Managing Partner and a senior member of the infrastructure management team at InfraRed Capital Partners. Tony holds a MA in Engineering from Cambridge University and is an ACMA-CGMA.

Diane Wilde has over 30 years' experience of managing equity, balanced and multi asset funds in both the asset management and wealth management sectors. She was managing director at Gartmore Scotland Ltd, managing investment trust assets on behalf of the company from 1993 to 2000. Following a period of managing similar assets at Aberdeen Asset Managers between 2000 and 2003, she joined Barclays Wealth as Head of Endowment Funds in Scotland. A former member of the Pension Fund Advisory Committee to the Barclays Bank UK Retirement Fund, Diane is currently a senior adviser at Allenbridge, an investment consulting firm. She is also a board member of the Social Growth Fund, managed by Social Investment Scotland (SIS), a leading social enterprise and impact investor in Scotland and the United Kingdom. Diane holds a BA in Economics and Social Administration from the University of Strathclyde.

QuotedData

QuotedData is a trading name of Marten & Co which is authorised and regulated by the Financial Conduct Authority
123a Kings Road, London SW3 4PL
0203 691 9430

www.quoteddata.com

Registered in England & Wales number 07981621,
2nd Floor Heathmans House
19 Heathmans Road, London SW6 4TJ

Edward Marten
(em@martenandco.com)

Alistair Harkness
(ah@martenandco.com)

David McFadyen
(dm@martenandco.com)

Investment company research:

Matthew Read
(mr@martenandco.com)

James Carthew
(jc@martenandco.com)

IMPORTANT INFORMATION

Marten & Co (which is authorised and regulated by the Financial Conduct Authority) was paid to produce this note on Aberdeen Standard European logistics Income.

This note is for information purposes only and is not intended to encourage the reader to deal in the security or securities mentioned within it.

Marten & Co is not authorised to give advice to retail clients. The research does not have regard to the specific investment objectives financial situation and needs of any specific person who may receive it.

The analysts who prepared this note are not constrained from dealing ahead of it but, in practice, and in accordance with our internal code of good conduct, will refrain from doing so for the period from which they first obtained the information necessary to prepare the note until one month after the note's publication. Nevertheless, they may have an interest in any of the securities mentioned within this note.

This note has been compiled from publicly available information. This note is not directed at any person in any jurisdiction where (by reason of that person's nationality, residence or otherwise) the publication or availability of this note is prohibited.

Accuracy of Content: Whilst Marten & Co uses reasonable efforts to obtain information from sources which we believe to be reliable and to ensure that the information in this note is up to date and accurate, we make no representation or warranty that the information contained in this note is accurate, reliable or complete. The information contained in this note is provided by Marten & Co for personal use and information purposes generally. You are solely liable for any use you may make of this information. The information is inherently subject to change without notice and may become outdated. You, therefore, should verify any information obtained from this note before you use it.

No Advice: Nothing contained in this note constitutes or should be construed to constitute investment, legal, tax or other advice.

No Representation or Warranty: No representation, warranty or guarantee of any kind, express or implied is given by Marten & Co in respect of any information contained on this note.

Exclusion of Liability: To the fullest extent allowed by law, Marten & Co shall not be liable for any direct or indirect losses, damages, costs or expenses incurred or suffered by you arising out or in connection with the access to, use of or reliance on any information contained on this note. In no circumstance shall Marten & Co and its employees have any liability for consequential or special damages.

Governing Law and Jurisdiction: These terms and conditions and all matters connected with them, are governed by the laws of England and Wales and shall be subject to the exclusive jurisdiction of the English courts. If you access this note from outside the UK, you are responsible for ensuring compliance with any local laws relating to access.

No information contained in this note shall form the basis of, or be relied upon in connection with, any offer or commitment whatsoever in any jurisdiction.

Investment Performance Information: Please remember that past performance is not necessarily a guide to the future and that the value of shares and the income from them can go down as well as up. Exchange rates may also cause the value of underlying overseas investments to go down as well as up. Marten & Co may write on companies that use gearing in a number of forms that can increase volatility and, in some cases, to a complete loss of an investment.