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Pre-IPO note | Investment companies

23 November 2017

Aberdeen Standard European Logistics Income

"Regular and attractive income"

Aberdeen Standard European Logistics Income (ASLI or the company) is a new company that intends to qualify as an investment trust. It will invest in a diversified portfolio of 'big box' logistics and 'last mile' urban warehouse assets in Europe (this includes both the UK and the Nordic countries - see page 3 for more detail on the investment proposition) with the aim of providing its shareholders with a regular and attractive level of income return together with the potential for long-term income and capital growth (target total return of 7.5% a year in euros).

ASLI is targeting a 5.5% dividend yield in euro terms.

Dividends will be paid in sterling but the assets and the income derived from them will be predominantly 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.

Issue expenses are being capped at 1.5% and the manager has agreed that no management fee will be payable on uninvested cash until 75% of the initial issue proceeds are invested (see page 10 for details of fees and expenses).

ASLI will be managed by a team within Aberdeen Asset Managers led by Evert Castelein (details of the management team are on page 12). Aberdeen Standard Investments Real Estate is the second largest European real estate investment manager (see page 11). The manager is overseen by a five-strong board of directors (see page 13).

ASLI plans that its shares will be admitted to trading on the London Stock Exchange on 15 December 2017.

The details of the share issue are more fully described in the prospectus published on 20 November 2017 and we urge readers to read this before making any investment decision.

Sector	European property
Ticker	ASLI LN
Base currency	GBP*
Domicile	England and Wales
Closing date for applications/ commitments	5pm on 11 December 2017 (offer for subscription) 5pm on 12 December (initial placing)
Admission date	15 December 2017
Manager	Aberdeen Asset Managers

* Note: shares are denominated in sterling and accounts are prepared in euros.

IMPORTANT INFORMATION

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Investment policy

"High quality European logistics"

Income and capital growth from investing in high quality European logistics real estate

Aberdeen Standard European Logistics Income (ASLI) aims to provide a regular and attractive level of income return together with the potential for long term income and capital growth from investing in high quality European logistics real estate.

It will invest in, and manage, a diversified portfolio of 'big box' logistics warehouses and 'last mile' urban logistics assets in Europe (we examine these markets in more detail in the next section). The portfolio will be diversified by both geography and tenant.

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).

Forward fund new developments where this leads to better returns

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)
- No single tenant to provide more than 20% of ASLI's annual gross income

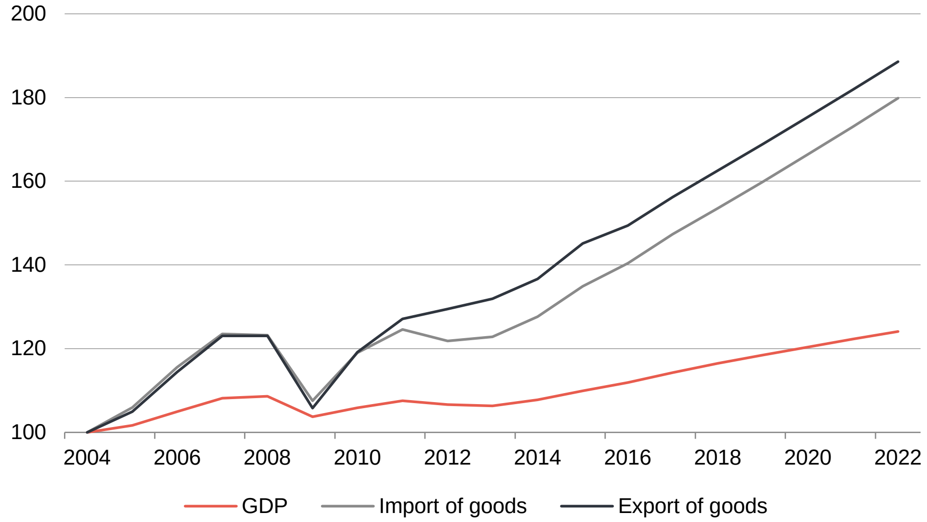
The European logistics market

Cross-border trade and e-commerce are growth drivers for the European logistics market

ASLI intends to invest in 'big box' logistics and 'last mile' urban warehouses in Europe. The manager believes that increasing cross-border trade is a growth driver for this market and there is an opportunity here as the way we shop changes and supply chains are reconfigured to adapt to this.

The increase in cross-border trade is obvious in Figure 1, which uses IMF data to show that, in the Euro area, export and import volumes are growing much faster than GDP.

Figure 1: Growth of cross-border trade versus GDP growth in Euro area

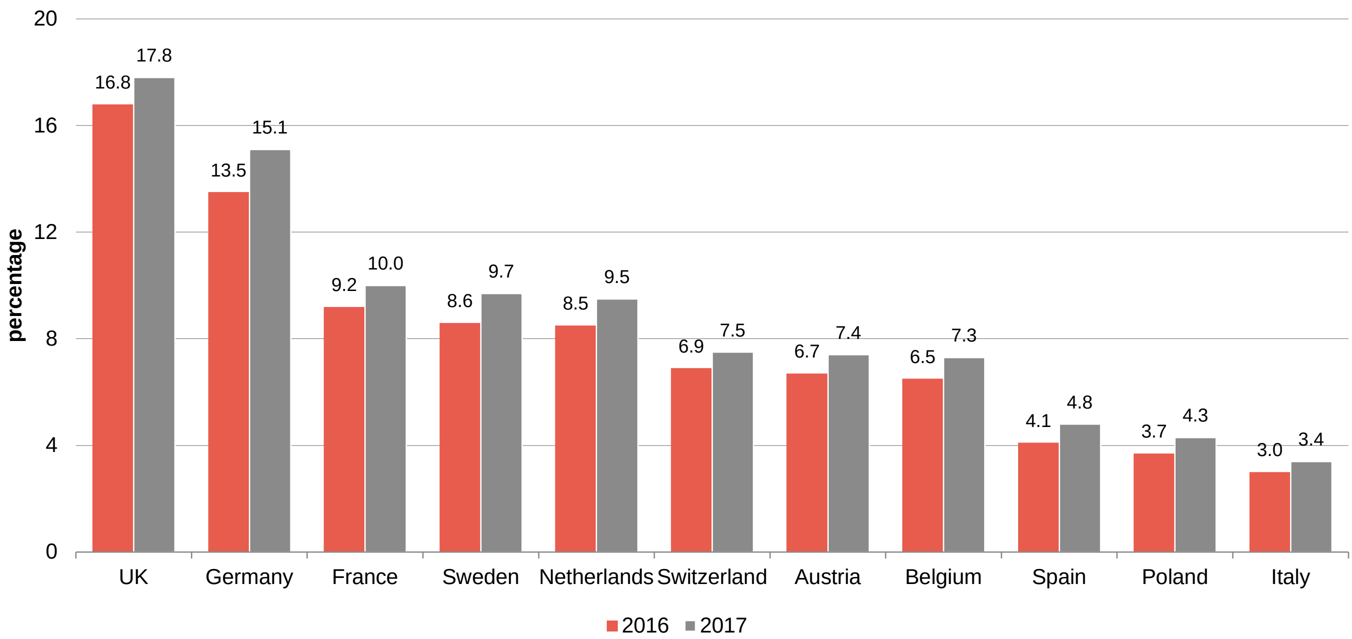


Source: IMF as at October 2017

Online retail sales growing at 12% per annum

E-commerce accounts for an increasing share of retail spending. In Europe, the UK is at the vanguard of this trend, as is evidenced in Figure 2, but the manager believes that online spending rates in Europe are accelerating and it estimates that online retail sales will grow at 12% per annum over the five-year period from 2016 to 2021.

Figure 2: Online shares of retail trade 2016 (actual) versus 2017 (forecast) for selected countries



Source: Centre for Retail Research

The Centre for Retail Research says that online sales in Western Europe and Poland grew from £175bn (€201bn) in 2015 to £202bn (€233bn) in 2016, an increase of 15.6%. It expects total e-commerce online sales to increase to £231bn (€266bn) in 2017, an increase of 14.2%. In addition, it is forecasting growth of 13.8% in 2018.

As retail commerce shifts online, the demand for the infrastructure needed to support this increases. ASLI is seeking to take advantage of this in two ways:

1) By investing in large centralised logistics warehouses on key strategic transport routes. These 'big boxes' act as national or regional hubs for online retailers and their logistics partners; and
2) By investing in local, 'last mile', urban warehouses that serve the end customer and facilitate same-day delivery.

Online fulfilment requires three times as much warehousing space

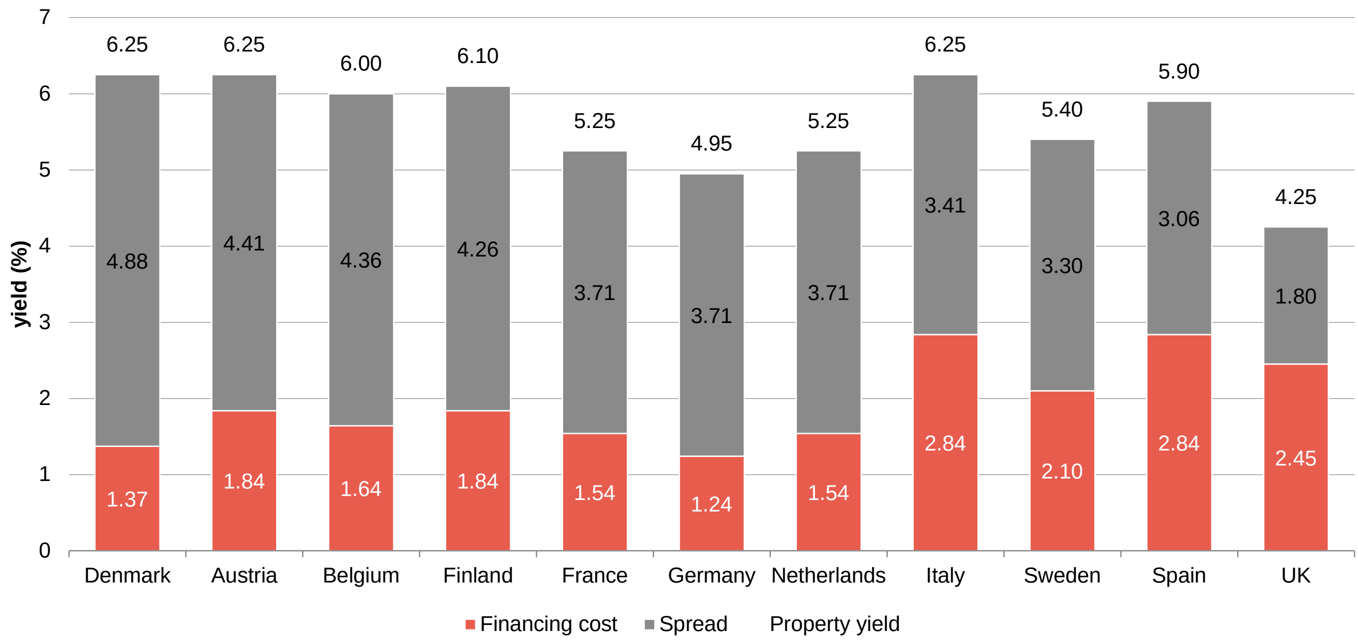
The manager quotes figures from Citi, that say that approximately 900m sq ft of new warehousing space is needed in Europe by 2035, and Prologis, which says that online fulfilment requires three times as much warehousing space as in-store fulfilment.

The yield opportunity

The manager says that continental European logistics offer higher property yields and wider yield spreads (the difference between the property yield and the cost of debt funding) than the, more developed, UK market. The manager says that it is possible to construct a portfolio of properties let to tenants with strong financial covenants, long leases, high yields and inflation-linked/fixed uplifts in rents.

Figure 3, which is based on figures supplied by Cushman & Wakefield for property yields (as at July 2017) and the manager for financing costs, illustrates the yields available and the yield spreads available. The manager will use gearing with the aim of enhancing yields and returns. This is explained on page 8.

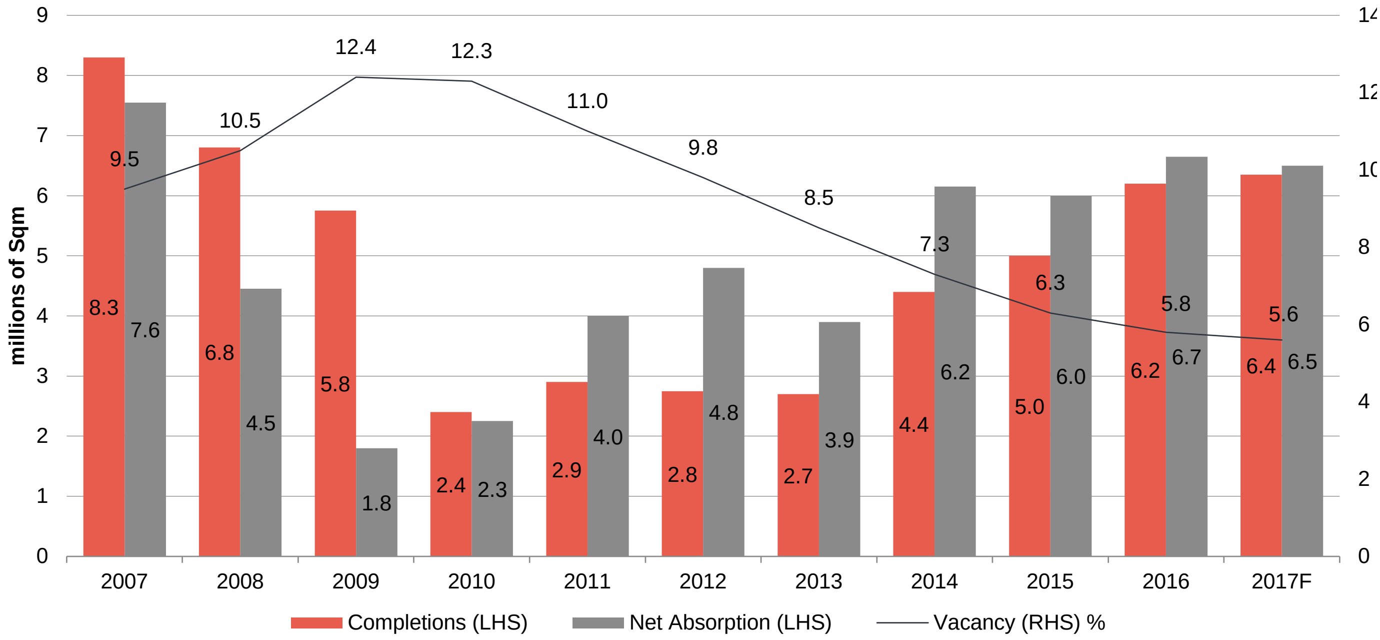
Figure 3: Yields and yield spreads for prime logistics properties



Source: Cushman & Wakefield, Aberdeen Standard Investments

Prologis, drawing on research from CBRE, JLL, Cushman & Wakefield and Gerald Eve, has compiled figures that show how the take up of logistics space has been exceeding supply for some time. The numbers in Figure 4 cover 48 of the largest logistics markets in Europe.

Figure 4: Logistics market fundamentals in the main markets of Europe



Source: Prologis, CBRE, JLL, Cushman & Wakefield, Gerald Eve,

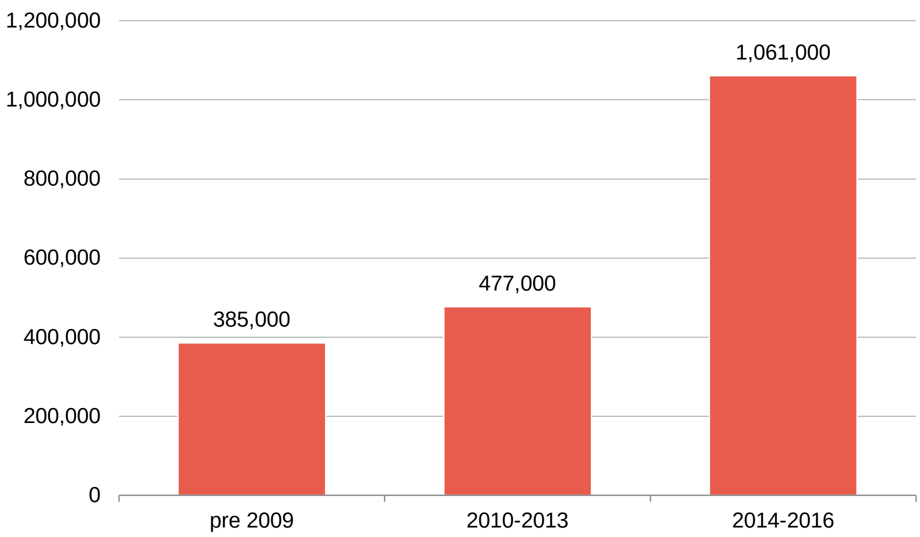
Since 2011, the amount of space taken up has exceeded new supply consistently, this has resulted in a falling vacancy rate.

Availability of land for 'last mile' warehouses is constrained

Amazon is moving closer to its customers

As customers demand speedier delivery, online retailers have responded by opening fulfilment centres that are closer to the end consumer. The manager uses data on the reach of Amazon logistics units to illustrate this. Figure 5, which is drawn from a Morgan Stanley research report, shows how many people live within 10 miles of the average Amazon logistics unit in the US, and how this has changed over time. Amazon is moving closer to its customers.

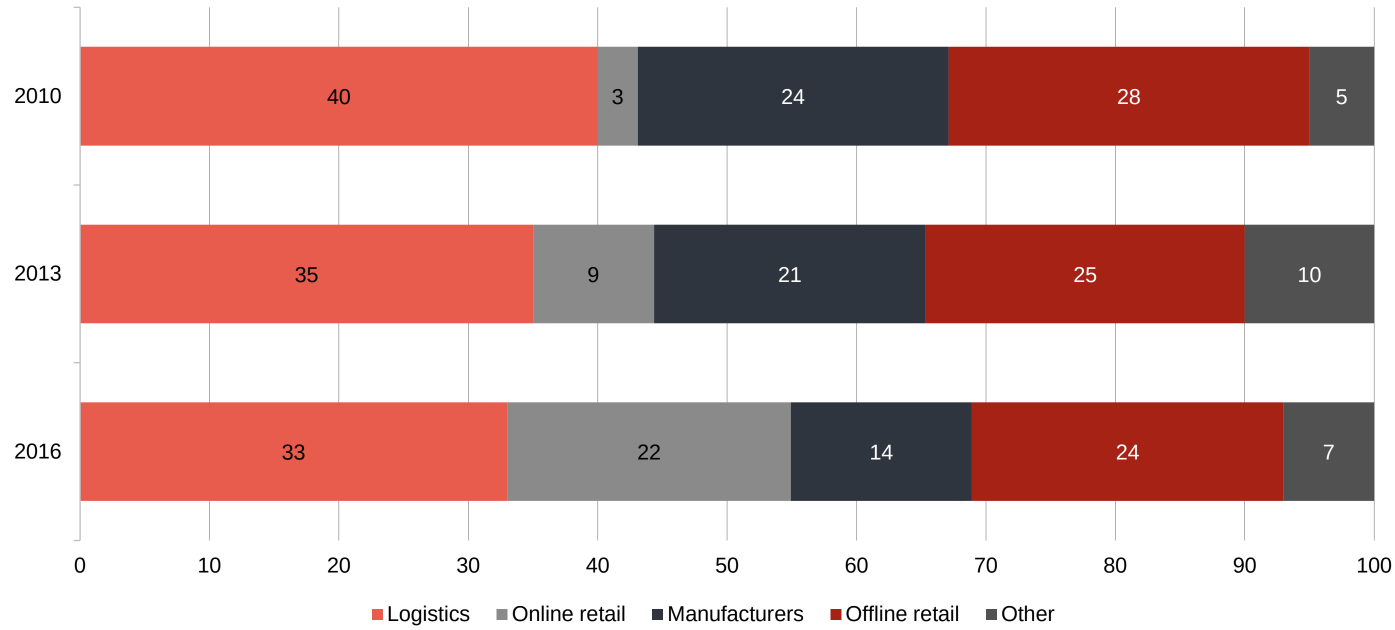
Figure 5: Average population within 10 miles of a US logistics unit



Source: Morgan Stanley Research, Alphawise, Costar et al

However, the supply of land, especially land zoned as industrial land, is constrained and, in some places, is falling. In Frankfurt am Main, for example, the manager quotes figures from Regionaldatenbank Deutschland that say that the amount of land zoned as industrial has fallen from 1,208ha in 1996 to 1,081ha in 2016, while the population of the city has increased by 11% over the same period.

Figure 6: Take up of logistics space in Europe by occupier type (as a percentage of the total)



Source: PMA

Figure 6, which is based on research by PMA, shows how ecommerce related activities are taking up an increasing proportion of available logistics space in Europe.

In summary, the manager believes that the net result of increased demand and constrained supply is that tenants are prepared to enter into long leases on index-linked or fixed uplift contracts. Furthermore, the manager believes that investors in European industrial property have not embraced the ecommerce theme to the extent that their counterparts in the UK have. This provides an opportunity for the fund.

Potential portfolio

Aberdeen Standard Investments Real Estate is the second largest European real estate investment manager (see page 11)

The manager is confident that it can deploy the proceeds of the issue within 12 months. As discussed on page 11, Aberdeen Standard Investments Real Estate is the second largest European real estate investment manager and has considerable resources available to it, giving access to deal flow. It points out that it reviewed over 2,100 property introductions over the period from 1 January 2016 to 9 November 2017 and transacted €840m (£737m) worth of properties over the same period.

The manager says it has agreed heads of terms over the acquisition of one multi-let logistics facility close to a major European airport and a major population hub in south-west Germany. This is estimated to be worth c€20m.

The directors also expect that the net proceeds of the issue will be invested within 12 months of the fund's launch. In any case, as explained on page 10, the manager will not be charging a fee until at least 75% of the initial issue proceeds has been invested.

Capital structure

Immediately following admission, ASLI will have a simple capital structure with one class of shares in issue (the ordinary shares). Its placing programme (see below) also allows it to issue C shares.

Issuance costs capped at 1.5%

The costs and expenses (including irrecoverable VAT) related to the initial issue, payable by the company, are to be capped at 1.5% of the initial gross proceeds. This suggests a minimum opening NAV of 98.5p per share (versus an issue price of £1.00 per share).

Targeting gross proceeds of £250m

ASLI is targeting initial gross proceeds of £250m and, assuming that it is able to achieve this level, initial net proceeds are estimated at £246.25m. The maximum initial size is limited to £350m (equivalent to net proceeds of £344.75m), while the level of minimum net proceeds to allow the issue to proceed is £150m (equivalent to gross proceeds of £152.28m).

The initial placing, offer for subscription and placing programme

ASLI's initial issue is being conducted by way of an initial placing and offer for subscription. A placing programme has also been put in place that allows ASLI to issue up to 500m ordinary shares or C shares (including those of the initial issue).

The placing programme aims to give the company the flexibility to issue shares, on a non-pre-emptive basis, to address excess demand in the market. ASLI says that it expects that the Board will issue C shares, rather than ordinary shares, where there is substantial demand and, without this mechanism, an issue could lead to a ''cash drag'' on the performance of the existing ordinary shares.

Borrowing

ASLI intends to use gearing 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.

The manager has assumed that the average loan to value (debt relative to gross assets) over the long term will be 30%. 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 and secured against individual assets or groups of assets with no cross-collateralisation. 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.

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 AGM following admission. 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.

Dividend policy

As an investment trust, ASLI will not be permitted to retain in excess of 15% of its income (as calculated for UK tax purposes) in respect of any accounting period. ASLI intends to pay dividends on a quarterly basis, with dividends declared in respect of the quarters ending on 31 March, 30 June, 30 September and 31 December in each year.

Euro denominated accounts, sterling denominated dividends

Reflecting the fact that ASLI's accounts are to be denominated in euros, ASLI will also declare its dividends in euros, but shareholders will receive dividend payments in sterling.

More generally, distributions may take the form of either dividend income or ''qualifying interest income'' which may be designated as interest distributions for UK tax purposes.

Targeting a yield of 5.5% and a total return of 7.5% in euro terms

Beyond the first accounting period, during which the trust will be deploying its initial issue proceeds, ASLI is targeting, for an investor at launch:

- An annual dividend yield of 5.5% per ordinary share (in euro terms); and
- A total shareholder return of 7.5% per annum (in euro terms).

Dividend targets for the first accounting period

ASLI's financial year end is 31 December and its first financial year will end on 31 December 2018. For the period from initial admission (timetabled by ASLI for 15 December 2017) to 30 June 2018, ASLI is targeting a first dividend of no less than 0.7p per ordinary share (a yield of 0.7% on the issue price of £1.00) and a further 2.3p for the six-month period between 30 June 2018 and 31 December 2018. This is a total of 3.0p.

The yields for the first accounting period are below ASLI's target returns discussed above. This reflects the fact that it will take the manager some time to deploy the initial issue proceeds.

ASLI's prospectus stresses that the above targets should in no way be considered to be forecasts.

Fees and costs

Aberdeen Fund Managers Limited has been appointed as ASLI's alternative investment fund manager (AIFM), and the AIFM has delegated portfolio management to Aberdeen Asset Managers Limited as the investment manager. Under the terms of the management agreement, the AIFM is entitled to receive a tiered annual management fee as follows:

- 0.95% of net assets up to €500m
- 0.75% of net assets greater than €500m and less than €1.25bn
- 0.60% of any net assets in excess of €1.25bn.

However, it should be noted that no annual management fee is to be charged on uninvested funds until such time as 75% of the net proceeds of the initial issue have 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 will charge an additional fee of €145,000 per annum in respect of company secretarial services, day-to-day administration, accounts preparation and NAV publication. The accounting and administrative functions will be delegated to State Street Bank and Trust Company (London).

ASLI will pay 0.075% of net assets to the AIFM in respect of the manager's investment trust promotional programme.

The chairman is entitled to receive a fee of £40,000 per annum and the other directors are entitled to receive £30,000 per annum each. In addition, the chairman of the audit committee is entitled to receive an additional £5,000 per annum.

Premium/discount management

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 managers' 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, will promote ASLI's shares through regular contact with both current and potential investors.

In the event that the ordinary shares trade at a premium, ASLI has the authority to issue new shares which could be used to satisfy any excess market demand (its placing programme has authority to issue up to 500m ordinary shares and/or C shares – including those of the initial issue).

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.

The investment team

Over 20 years combined experience of European logistics investment

ASLI's investment team is made up of Evert Castelein (fund manager), Ross Braithwaite (assistant fund manager), Allitla Molnár (assistant fund manager) and Andrew Allen (Head of Global Property Research and Strategy). The team has over twenty 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 offices in 14 countries across Europe. The team says that this 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 282 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.

Standard Life Aberdeen will subscribe for up to 15m shares in ASLI (subject to a maximum of 14.99% of the initial issue when taken in aggregate with other Aberdeen funds that may invest).

Well positioned

The team describes itself as being well positioned to identify assets that will benefit from structural change in the logistics sector. It benefits from a significant pipeline of prospective deals that are provided by the manager's large deal flow. The team expects to be able to invest the net proceeds of the IPO within 12 months.

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.

Ross Braithwaite – Assistant Fund Manager (Edinburgh)

Ross is a Fund Manager and responsible for the Pan European Urban Retail Fund (PURetail Fund). Ross joined Aberdeen Asset Management in April 2014 via the SWIP acquisition, where he had been Fund Manager of PURetail since launch in 2011, and prior to that Investment Manager on the SWIP European Balanced Property Fund, Airport Industrial Property Unit Trust and UK Balanced Property Trust, since joining SWIP in 2003. Prior to that, Ross worked for Standard Life Investments for 5 years.

Ross graduated with a BLE (Hons) in Land Economy from Aberdeen University and is a professional member of the Royal Institution of Chartered Surveyors. Ross speaks English and German.

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 that 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. Attila speaks German, Hungarian and English

Andrew Allen – Global Head of Real Estate Investment Research (UK)

Andrew Allen is Head of Global Property Research and a member of the Global property management committee. Andrew manages a team of analysts located in Singapore, Norway, Germany and the UK. He 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 & 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. Prior to that, Andrew was a senior analyst at Property Market Analysis.

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

The board

The members of the board intend to subscribe, in aggregate, for 125,000 shares.

Pascal Duval (Chairman) age 55

Pascal worked for Russell Investments in EMEA for 22 years, during which time he opened the 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 age 52

Caroline 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 age 64

John 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 age 53

Tony 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 age 53

Diane 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

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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)

Investment company research:

James Carthew
(jc@martenandco.com)

Matthew Read
(mr@martenandco.com)

IMPORTANT INFORMATION