abrdn European Logistics Income plc

Capturing long-term income potential from logistics real estate in Europe

Performance Data and Analytics for Quarter 2, 2022

Investment objective

To aim 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.

Strategy

To deliver the investment objective through investment in, and active asset management of, a diversified portfolio of logistics real estate assets in Europe.

Cumulative performance (%)

	30/06/22	3 months	1 year
Share Price (GBp)	99.6p	(8.4)	(12.6)
NAV (Eur)[A]	130.9c	0.6	10.6
NAV (Converted to GBp)[A]	112.4p	2.5	10.9

Discrete performance (%)

	30/06/22	30/06/21	30/06/20	30/06/19	30/06/18
Share Price (GBp)	(12.6)	18.5	11.2	0.6	–
NAV (Eur)[A]	10.6	14.7	10.8	0.9	–
NAV (Converted to GBp)[A]	10.9	8.3	12.6	2.0	–

The Company launched on 15 December 2017, therefore discrete performance figures are not available for full years prior to 2018.
Share price total return is on a mid-to-mid basis.
Dividend calculations are to reinvest as at the ex-dividend date.
Source: Aberdeen Asset Managers Limited, Lipper and Morningstar.
Past performance is not a guide to future results.

Fund managers' report

Highlights

- Portfolio valuation of €680.4 million, a marginal decrease of 0.35%
- NAV per Ordinary share decreased by 0.5% to 130.9c (GBp – 112.4p) (31 March 2022: 131.6c (GBp – 111.3p)), reflecting a NAV total return of 10.6% (in Euro terms) for the 12 months to 30 June 2022
- EPRA Net Tangible Assets decrease by 0.5% to 138.7c per Ordinary share
- Second interim dividend for 2022 of 1.41c (GBp – 1.20p) declared, payable on 23 September 2022
- Income enhancing asset management successes including:
  - Five year lease agreed with ADER on 7,375 sqm of previously vacant space at Madrid Phase II, ahead of business plan
  - Completion of Madrid Phase IV Amazon hub
  - Delivery of highly sustainable warehouse extension at Waddinxveen, the Netherlands
- Acquisition of two well-located logistics properties, in Bordeaux and Niort, for €23 million

[A] Total return; NAV to NAV, net income reinvested.
[B] 0.75% per annum of net assets up to €1.25bn and 0.60% thereafter.
[C] Calculated using the company's historic net dividends and quarter end share price.

Asset allocation (%)

Direct Property	93.9
Cash & Cash Equivalents	6.1
Total	**100.0**

Total number of investments 23

Key information
Calendar

Year end	31 December
Accounts published	April, September
Distributions	March, June, September, December
Launch date	December 2017
Fund manager	Direct Property Team
Annual management fee[B]	0.75%
Yield[C]	4.8%
Premium/(Discount)	(11.4)%
Gearing	21.7%
Net Asset Value	€539.6m

AIFMD Leverage Limits

Gross Notional	3.65x
Commitment	1.85x

Capital structure

Ordinary shares	412,174,356

Allocation of management fees and finance costs

Revenue	100%
Capital	0%

Trading details

Bloomberg code	ASLI LN
ISIN code	GB00BD9PXH49
Sedol code	BD9PXH4
Stockbroker	Investec
Market makers	CFEP INV. JEFF JPMS NUMS PEEL WINS

All sources (unless indicated): abrdn: 30 June 2022.

Fund managers' report - continued

- Sale and Purchase Agreement signed to acquire a further French logistics asset, expected to complete late September 2022, following which the portfolio will comprise 14 urban logistics warehouses and 12 mid-box logistics warehouses
- €40m three-year debt facility agreed with ING Bank, secured against Phases I to III of Spanish Madrid portfolio, at an all-in interest rate of 2.57%.

Performance

The unaudited portfolio valuation decreased by a marginal €2.4 million in the quarter, or 0.35%. This follows the appointment of Savills as valuation advisor for the Company's Netherlands portfolio for Q1. Under the Company's rotation policy, Savills has been engaged as sole valuer and has now valued all portfolio properties for this quarter.

For the 12 month period to 30 June 2022, the Company's net asset value total return was 10.6% in Euro terms (10.9% in Sterling terms).

As at 30 June 2022, the Company's share price was 99.6p. At the close of business on 19 August 2022 the share price was 103.4p.

Madrid Last-mile Portfolio

The Company announced in December 2021 the acquisition of a portfolio of newly constructed last-mile logistics warehouses with excellent sustainability credentials, located in the first ring of Madrid, Spain. Phase IV of the portfolio, which has been developed as an exclusive hub for Amazon and benefits from a 25 year lease, was completed in July 2022.

On 10 August the Company agreed a new 5 year lease with ADER at the previously vacant Unit 3, within Phase II at its Gavilanes site, Madrid. ADER provides distribution services to companies in the freight and logistics sector and is consolidating its operations in the Gavilanes area with the leasing of this second, 7,375 sqm building. The letting is fully CPI indexed and accretive to performance having completed well in advance of the guarantee timing assumptions and at a rental level ahead of underwriting.

French acquisitions

On 1 August 2022 the Company announced the completion of the purchase of two well-located freehold logistics properties in Bordeaux and Niort, France. The aggregate purchase price of circa €23 million reflects a net initial yield of 4.0%.

Both buildings are leased to the same German-owned global third party logistics provider, operating as Dachser France. This long standing 3PL operator has a strong financial covenant and both leases provide for annual indexation. Site coverage is also low, at 22% and 9% respectively, providing excellent opportunities for expansion in the future.

Waddinxveen extension completion

On 10 August the Company also announced that it had signed the purchase agreement for the acquisition of the recently completed warehouse extension at Waddinxveen, the Netherlands, for a total net purchase price of €4.9 million.

The extension provides an additional c. 2,400 sqm of cooled warehouse space and 157 sqm of office space. This will allow Combilo to service its growing client base, including a Swedish supermarket chain. The lease runs concurrent with the original, with over 11 years remaining, and will generate additional rent of c. €250,000 per annum, reflecting a yield of 5%. The extension complies with the latest energy neutrality standards in the Netherlands and includes 16 rooftop solar panels, resulting in an A+++ energy rating.

This asset management initiative is expected to be immediately value accretive and enhances the income producing qualities of this modern, well-located asset.

Debt Financing

On 7 July 2022 the Company secured a new €40m debt facility against Phases I to III of its Spanish Madrid portfolio. A three-year term was agreed with ING Bank at an all-in interest rate of 2.57%, effected using an interest rate swap.

Post quarter end, the Company has drawn €50 million of its €70 million RCF with Investec Bank, enabling completion of the final phase of the Madrid portfolio. This increases the LTV to 30.1% (as at 19 August 2022), comfortably below the Company's long term target of c. 35%. The Company intends to repay the RCF with the planned debt financing of the now operational Phase IV.

The new ING facility provides additional flexibility around the Company's debt strategy and the current all-in interest rate for the portfolio (excluding the RCF) now sits at 1.66%.

Fund managers' report continues overleaf

Fund managers' report - continued

Market outlook

Economic activity is faltering because of high inflation, rising interest rates, and a more cautious approach from consumers and businesses. Manufacturing output has slowed most notably with purchasing managers' indices only just in positive territory in June 2022. Consumer confidence has soured sharply, approaching the lowest levels seen since the eurozone crisis. Momentum from the pandemic is fading, but is still strong enough to avoid a technical recession in the second half of 2022. A recession is likely to emerge in 2023, though, as central banks are currently expected to continue hiking through this period and labour markets should soften.

The risk of higher inflation from a more abrupt end to the use of Russian gas could make it harder for the ECB to balance controlling inflation with preventing fragmentation risks from rising. Inflation is currently expected to peak in the fourth quarter of 2022 as base effects drop out.

Deal flow in Europe slowed notably in the second quarter of 2022, falling 25% compared with the same quarter of 2021. Rising interest rates have pushed all in financing costs roughly 200 bps higher in a matter of months, taking many leveraged investors out of the market. This is particularly noticeable in segments where the spread between real estate yields and financing costs have reached parity. As a result, brokers have started to move yields out in many segments in June 2022.

Environmental, social and governance (ESG) factors are beginning to play a bigger role in decision making, and this trend will only gather momentum in 2022 and beyond. New regulations combined with valuation guidance from the Royal Institute of Chartered Surveyors (RICS) will drive a wider gap between future-fit assets and those facing obsolescence.

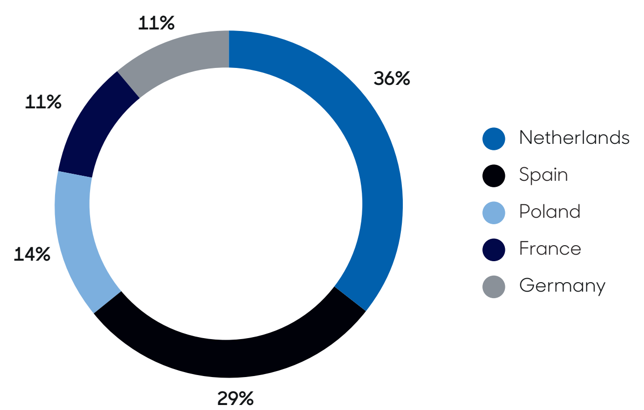
Given the evolving geopolitical and economic environment, expectations have been downgraded. The outlook is driven by three key phases. Firstly, a period of yield re-rating as a result of compressed yield spreads. Secondly, a period of stability from the second half of 2023 as inflation cools, economic conditions bottom-out and real estate values find their new level. And, thirdly, from 2024, the limited supply outlook supports stronger income growth prospects in the best part of the real estate markets and a healthier return scenario.

The European logistics occupier markets remain very active with strong leasing momentum. While the news of Amazon sub-leasing space in the US created a wave of concern around future demand, Europe is clearly at a much earlier phase of its supply chain reconfiguration.

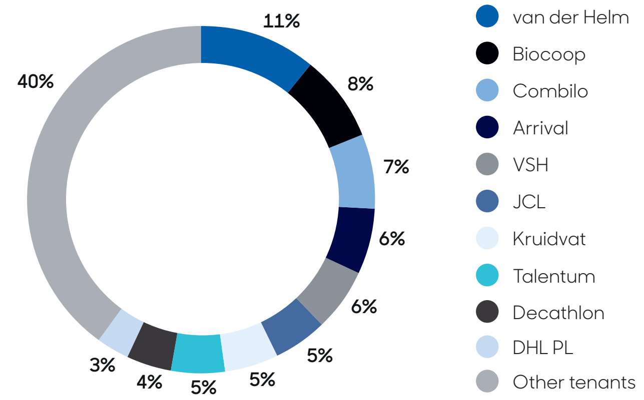
Market fundamentals remain very supportive in Europe, driven by low vacancy rates of less than 2% in many locations, increasing demand driven by e-commerce, the diversification of supply chains, and higher inventories. According to BNP, take-up of warehouses over 5,000 sqm increased by 15% year-on-year in the first quarter of 2022, with Germany seeing the strongest growth of 44%, followed by France with 24% and Spain rising 14%.

Logistics rents increased by 3.2% year-on-year in the second quarter of 2022, but in the most supply constrained parts of the market higher rental growth was recorded. We expect rents to grow at a faster rate over the next five years given low supply and rising replacement costs. These issues make it very challenging for developers to construct new projects at current rent levels and to retain profitability.

Country allocation (% of portfolio value)



Tenant exposure (% of total rent)



Important information

Risk factors you should consider prior to investing:

- The value of investments and the income from them can go down as well as up and you may get back less than the amount invested.
- Past performance is not a guide to future results.
- Investment companies can borrow money in order to enhance investment returns. This is known as 'gearing' or 'leverage'.
- However, the use of gearing can result in share prices being more volatile and subject to sudden or large falls in value. Where permitted an investment company may invest in other investment companies that utilise gearing which will exaggerate market movements, both up and down.
- There is no guarantee that the market price of the Company's shares will fully reflect its underlying Net Asset Value.
- As with all stock exchange investments the value of the Company's shares purchased will immediately fall by the difference between the buying and selling prices, the bid-offer spread. If trading volumes fall, the bid-offer spread can widen.
- Investing globally can bring additional returns and diversify risk. However, currency exchange rate fluctuations may have a positive or negative impact on the value of your investment.
- The Company may hold a limited number of investments. If one of these investments declines in value this can have a greater impact on the fund's value than if it held a larger number of investments.
- Property values are a matter of the valuers' opinions and can go up and down. There is no guarantee that property values, or rental income from them, will increase so you may not get back the full amount invested.
- Property investments are relatively illiquid compared to bonds and equities and can take a significant length of time to sell and buy.
- The Company invests in a specialist sector and it will not perform in line with funds that have a broader investment policy.
- Derivatives may be used, subject to restrictions set out for the Company, for efficient portfolio management in order to manage risk. The market in derivatives can be volatile and there is a higher than average risk of loss.

Other important information:

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