abrdn European Logistics Income plc

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

Performance Data and Analytics for Quarter 2, 2023

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 (%)

	30/06/23	3 months	1 year
Share Price (GBp)	66.0p	(1.7)	(29.5)
NAV (Eur)[A]	108.3c	(1.3)	(13.2)
NAV (Converted to GBp)[A]	92.9p	(3.6)	(13.5)

Discrete performance (%)

	30/06/23	30/06/22	30/06/21	30/06/20	30/06/19
Share Price (GBp)	(29.5)	(12.6)	18.5	11.2	0.6
NAV (Eur)[A]	(13.2)	10.6	14.7	10.8	0.9
NAV (Converted to GBp)[A]	(13.5)	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: abrdn Investments Limited, Lipper and Morningstar.
Past performance is not a guide to future results.

Fund managers' report

Highlights

- The portfolio valuation decreased marginally from €722.7 million to €693.5 million, a 1.5% like-for-like valuation decline (excluding sale of Leon during the quarter), reflecting slowing outward yield movement as key medium-term economic indicators improve.
- NAV per Ordinary share decreased by 2.6% to 108.3c (GBp – 92.9p[D]) (31 March 2023: 111.2c (GBp – 97.7p[D])), reflecting a NAV total return, with quarterly distributions reinvested, of -6.6% in Euro terms (-9.6% in sterling) for the 6 months to 30 June 2023.
- EPRA Net Tangible Assets[E] decreased by 2.8% to 113.1c per Ordinary share (31 March 2023 – 116.4c).

[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.
[D] Exchange rate £1 : €1.17 (31 March 2023: £1 : €1.14).
[E] EPRA Net Tangible Assets focuses on reflecting a company's tangible assets and the calculation assumes entities buy and sell assets, thereby crystallising certain levels of deferred tax liability.

Asset allocation (%)

Direct Property	96.8
Cash & Cash Equivalents	3.2
Total	**100.0**

Total number of investments 26

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]	7.3%
Premium/(Discount)	(29.0%)
Gearing	35.3%
Net Asset Value	€446m

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 2023.

Fund managers' report - continued

- Second interim dividend for 2023 of 1.41c (GBP - 1.22p) declared, payable on 22 September 2023.
- Completed the sale of the 32,645 sqm warehouse in Leon, Northern Spain, for €18.5 million. The disposal price reflected a small premium to the 31 March 2023 valuation.
- Other asset management initiatives executed including:
  - a five-year lease extension with AS Watson, at the Company's single-tenant warehouse in Ede, the Netherlands.
  - a three-year lease extension with MaxFliz home interiors at the Company's Krakow, Poland warehouse, extending the expiry to July 2027.
- The Company's loan-to-value ("LTV") was 35.3%, with the Investec €70 million facility undrawn at the quarter end. The Company's fixed debt facilities totalled €259.5 million at an average all-in interest rate of 2.0% with no re-financings required until mid-2025.

Performance

The independent unaudited external valuation of the Company's property portfolio undertaken by Savills (UK) Limited decreased by €10.8 million in the quarter, or 1.5%. The Dutch (-2.5%) and Polish (-2.3%) assets saw the largest valuation declines, with the Spanish portfolio decreasing 1.5% whilst the German and French assets were broadly flat.

For the 12 month period to 30 June 2023, the Company's net asset value total return with quarterly distributions reinvested was -13.2% in Euro terms (-13.5% in sterling terms).

Dividend

The Directors have declared a second interim distribution for the year ending 31 December 2023 of 1.41 euro cents (equivalent to 1.22 pence) per Ordinary share, which is unchanged from the previous period. The second interim dividend will be paid in sterling on 22 September 2023 to Ordinary shareholders on the register on 1 September 2023 (ex-dividend date of 31 August 2023).

Rent Collection & Asset Management

As at the date of this report, 94% of the expected rental income for the quarter ended 30 June 2023 has been collected. As a result of Arrival's publicly stated intention to consolidate operations in the US, negotiations with the EV manufacturer remain ongoing regarding the two units it leases in Madrid. Rent continues to accrue and is expected to be paid on the conclusion of discussions and the Investment Manager is confident of reaching a satisfactory agreement.

During the quarter, the Company completed:

- a previously announced five-year lease extension at its single-tenant warehouse in Ede, the Netherlands. The new extended lease with pharmaceutical retailer AS Watson (trading as Kruidvat), moves the expiry out from 2028 to July 2033 and provides for future upward-only indexation capped at 4% per annum.
- a three-year lease extension to MaxFliz home interiors at its Krakow warehouse in Poland. The new lease extends the expiry out to July 2027.

The combination of these asset management initiatives and the Leon sale have improved the portfolio lease metrics by extending the weighted average unexpired lease term (to break) from 6.1 years to 7.1 years and the weighted average lease term (to expiry) from 8.3 years to 8.7 years.

Debt Financing

At the end of the quarter, the Company's fixed debt facilities totalled €259.5 million with an average all-in interest rate of 2%, representing a loan-to-value ratio of 35.3%, in line with the Company's target LTV. The Company's lower cost, secured, fixed rate debt provides support to its investment objective with the earliest re-financing of debt required in mid-2025.

Fund managers' report continues overleaf

Fund managers' report - continued

Market outlook

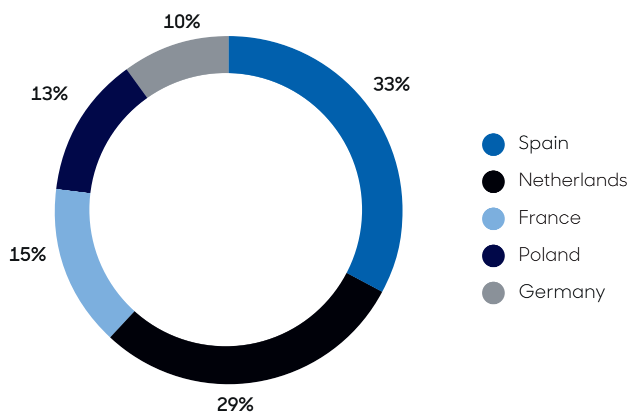
Growth in the Eurozone has been low lately, with quarter-on-quarter prints of 0.0% and 0.3% in Q1 and Q2 respectively. Both readings were affected by Ireland's volatile national accounts, creating the impression of a pickup in momentum that is not reflected across other Eurozone members. Indeed, survey evidence suggests the Eurozone carried poor momentum into Q3, and purchasing manager indices pointed to contraction in July. Additionally, retail sales are falling, the industrial sector is shrinking, bank lending conditions are tightening, and the impact of monetary tightening is building. Many expectations are for the Eurozone economy to fall into recession in Q4 2023.

Inflation is falling but remains elevated. Headline inflation fell to 5.3% in July and will continue falling as energy inflation fades. Core inflation ticked up to 5.5% – pushed higher by base effects from Germany's public transport subsidy scheme and compositional effects – but should soon fall modestly on global disinflation in the goods market. Countering this is stickier core services inflation, which is being boosted by all-time lows in the Eurozone unemployment rate and strong negotiated wage rounds. As such, it is hard to see a return to target-consistent inflation without an eventual rise in unemployment weighing on wage growth.

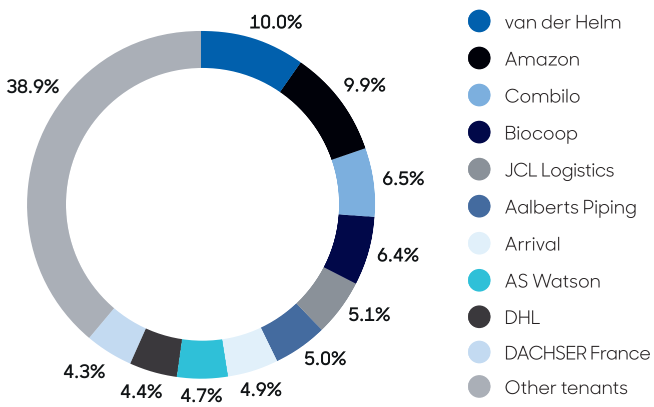
The ECB is no longer signalling rate hikes, having adopted a policy of strict data-dependence. It increased the deposit rate by 25bps to 3.75% recently, and this could prove to be the last hike of the cycle. Indeed, rates have now most likely peaked, but concerns around strong wage growth and sticky inflation risks could invite one further hike in September. However, whether this further hike materialises remains very much data-dependent, with a hike requiring continued strong underlying inflation prints. A recession would ultimately mean a rate cutting cycle during 2024.

The logistics sector continues to perform. The European vacancy rate was 2.6% in the first quarter of 2023. Logistics take-up has exceeded new completions in nine out of the last 12 years, so new supply comes as a welcome boost when demand for modern logistics space continues to run high. European logistics rents increased by an average of 10% in 2022. This exceptional level is not expected to be sustained this year, but the five-year forecast for rental growth is c.3.5% per annum, almost double the average annual rate in the last 15 years. We expect logistics rents to remain resilient as structural demand drivers offset some of the macroeconomic weakness. The portfolio continues to demonstrate a level of resilience despite wider market uncertainty, reflecting the strategic location of the assets, the strength of the occupational market, low vacancy rates, and rents which are underpinned by annual indexation. The recent asset management successes are a demonstration of the competitive advantages of abrdn's asset management and transaction teams across European offices as well as the ongoing liquidity for good quality logistics.

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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abrdn Investments Limited, registered in Scotland (No. 108419), 10 Queen's Terrace, Aberdeen AB10 1XL. Both companies are authorised and regulated by the Financial Conduct Authority in the UK.

Contact

Private investors
0808 500 4000

Institutional investors
InvestmentTrustInvestorRelations-UK@abrdn.com
+44 (0)20 7463 5971

For more information visit invtrusts.co.uk

invtrusts.co.uk

0001960573