

Profil	
<i>Investment approach</i>	Aberdeen Property Investment Prozess
<i>Volume</i>	Volume of mutual and special funds: ~ 4.2 bn Euro (as of: 31.07.2016)
<i>Fund Manager</i>	Aberdeen
<i>Company</i>	Aberdeen Asset Management Deutschland AG
<i>Internet</i>	www.aberdeen-immobilien.de, www.aberdeen-asset.de
Anlegerprofil	
<i>Investment horizon</i>	long-term (7-10 years)
<i>Risk classification</i>	medium
<i>Return expectations</i>	Value preservation, return targets agreed individually as a rule
<i>Loss Tolerance</i>	short-term losses are possible

TELOS-Comment

In 2017 TELOS GmbH conducted the investment process rating for Aberdeen Asset Management Germany AG (AAMD) for the fifth time. The Aberdeen Property Investment Process is managed by Aberdeen Asset Management Germany, one of Germany's leading property managers. Aberdeen Asset Management Germany is part of an international group. At the beginning of 2017 Aberdeen Asset Management PLC announced the merger with Standard Life Investments Limited, Scotland (Edinburgh). The new group will operate under the name Standard Life Aberdeen PLC. After the final legal closing of the merger in August 2017 the new entity manages about 46 bn € in property investments and is the 2nd largest property asset manager in Europe and is among the ten largest in the world.

So far the investment process of Aberdeen will not be influenced by the merger. The product range of both companies fits well to each other. In addition, the group will profit from synergy effects in terms of administration and the business cultures of both companies are quite similar. The Aberdeen Property Investment Process forms the basis for managing all of the funds run by AAMD. This rating is based solely on the property-specific Investment Process adopted by AAMD, which operates in Germany. The Aberdeen Property Investment Process is a disciplined and structured work flow combined with integrated risk management with particular focus on client-specific risk profiles and requirements. All of the process steps associated with allocation, selection, asset management and all qualitative and quantitative controls are defined throughout the Group within the Investment Process and uniformly implemented. Particular importance is placed on the process of making investment decisions as a team. This principle drives every single step in the Investment Process, such as purchases and sales of properties, but also the structuring of the portfolio. In addition, the far reaching local presence of Aberdeen in 25 countries (of which 18 are in Europe) and the involvement of all management levels in the Investment Process in keeping with the Group philosophy of "people on the ground" produces acknowledged investment competence, an effective decision-making process, and a very good result in the Property Investment Process. The "people on the ground" principle describes the Group's efforts to ensure the presence of experienced staff throughout the entire Group at its local offices in relevant property markets, and to involve senior management in the first steps of the process, and the initial process of advising clients.

The Aberdeen Property Investment Process is based on a combination of bottom-up and top-down analysis, which benefits from property research conducted by the entire Aberdeen Group, from a local presence in the various real estate markets, and from the active property

management approach adopted by AAMD. The visible global presence of Aberdeen on all relevant real estate markets constitutes a real competitive advantage vis-a-vis its competitors. Aberdeen offers a comprehensive range of different investment products and various property-related services. The strengths of Aberdeen globally concentrates on both regional property funds with a focus on active pan-European property management and the global management of property funds-of-funds focusing on Asia. These products are always based on research findings from in-house analysts, respectively from the Group.

Aberdeen offers institutional investors the option of comprehensive support in implementing and realising individual client mandates. The investment team at AAMD identifies the client's requirements and documents them in detail in the form of performance and risk indicators, together defined allocation specifications, in a so-called "Investment Plan". This plan forms the basis for the Property Investment Process at Aberdeen. By involving the senior management levels in the shape of two Investment Committees, clients are offered property management that reflects the very highest standards of quality, together with outstanding expertise and comprehensive local experience on the world's real estate markets. A detailed explanation of the process, the investment committees and the management is included later on in this Rating Report. Aberdeen adopts a conservative management approach with "long only" criteria and strives to generate high risk-adjusted returns from its property investment funds without, however, ever ceasing to comply with the specified risk requirements. The company is not swayed by short-term market trends.

AAMD's license as a so-called Kapitalverwaltungs-gesellschaft (KVG) according to German law (KAGB) offers the opportunity to set up new categories of products, so-called closed-ended property limited partnerships. One limited partnership is already managed Aberdeen.

AAMD is becoming increasingly important for the Aberdeen Group as regards management in Continental Europe. AAMD's development over the past twelve months, in particular with rising assets under management to 4.2 bio.€ or plus 13% compared with last year's figures, has shown once again that AAMD is the lead unit in continental Europe in the Aberdeen Group. AAMD has long-standing market and transaction experience and an excellent network of real estate specialists.

Compared to last year the investment process of AAMD continues to show very good stability. Taking into account the merger between Aberdeen and Standard Life, the property investment process applied by Aberdeen Asset Management Deutschland AG - which is based on proprietary research - receives the rating **AAA**.

Organisation

Aberdeen Asset Management plc is the British holding company of Aberdeen Asset Management Germany AG (AAMD), which operates in Germany (see Fig. 1). Of ~ € 360 bn € AuM, a total of ~ 27 bn € are accounted for public property funds as well as special property fund mandates. Aberdeen continues to be one of the largest and most independent asset managers in Europe listed at the stock exchange. Aberdeen occupies the number 2 spot among the largest independent real estate asset managers in Europe.

After the merger with Standard Life, Scotland, Aberdeen was able to strengthen its position as second largest real estate manager in Europe. The merger under equals between Aberdeen and Standard Life was finalised in August 2017. The new holding group will manage 763 bn € as assets under management regarding all asset classes. A total of 46 bn € accounts for property business, mainly in the UK market with about 27 bn €. A continuous increase of business over the last years in Continental Europe and in Germany in particular underlines the importance of the units in Europe. In Germany, Aberdeen operates as Aberdeen Asset Management Deutschland AG, which is home to all operations in Germany following an organisational restructuring in 2013 for the purpose of optimising processes and promoting the consistent market presence of the company. The company also has a full license to operate as an investment company. The Property expertise is the core competence of the company and is intended to be expanded in the near future.

In the course of the coming years Aberdeen intends to expand the property expertise by continuous increase in the institutional sector and by consequently diversifying real estate assets (residential, commercial/industrial, logistics). This approach is verified by property funds being launched just recently for institutional clients as well as products which will be launched in the near future.

There were no functional changes within the company as well as in the asset management teams. One of the members of the Executive Board got retired. His responsibilities were taken on by the remaining board members. As AAMD disposes of a well-established management team on the second level the organisation of AAMD is not affected by the new structure. The position of AAMD as a stable unit within the Aberdeen Group has recently been further underpinned following minor outflows of funds from the UK (Brexit) and the Nordic countries.

The German entity gained in importance at group level especially regarding financing and liquidation management also in 2017. The treasury division of the Aberdeen Asset Management Germany AG is responsible for all property related Aberdeen-entities and acts within the group as a coordinator for refinancing-issues, not least regarding terms of loans and keeping contact to numerous credit institutions. In addition, some employees of the German unit have acquired group functions. Assets under the management of AAMD account ~ 4.2 bn €. In addition AAMD disposes of approximately 1 bn € in form of capital commitments, for the most part being marked off for concrete projects.

Taken together the assets of AAMD amount to about 5.2 bn € including hard commitments (of which big parts already are allocated to properties under construction) and less of funds in the status of liquidation.

The property management activities of the German Aberdeen unit can trace their history back over several decades. In addition to its local office in Germany, Aberdeen is present in 25 other countries (of which 18 are in Europe) and 40 offices worldwide. Investment activities focus primarily on core European countries, Asia (e.g. Singapore), and North American countries. Some 650 people in total are employed, of which 220 are property specialists. This moderate decline in terms of number of employees compared to last year results from an increasing use of outsourcing capacities to third party providers regarding business outside the investment process. Manager strength focuses particularly on research, fund management, property investment and asset management. In this respect, the importance of a

local presence of the appropriate experts must be emphasised as a crucial prerequisite for ensuring efficient property management of the highest quality on site. The management principle of "people on the ground" that Aberdeen adopts aims to secure the quality of the active management, especially in the areas of research, fund management, investment-, asset- and transaction management. It is not just the local presence but also active and close cooperation between the individual team members and the integration of management that helps to raise the active management of the property assets to the highest standard of quality.

Within Aberdeen Group, the German arm is classed as the expert for property investments in Germany and Continental Europe. Aberdeen sees itself as an institutional asset manager, offering its clients a broad and diversified range of real estate products. In addition to special and mutual property investment funds, which can comprise regional or even sector portfolios, depending on the chosen focus, Aberdeen Group offers also both European and Asian property funds-of-funds for institutional clients. Overall, Aberdeen Asset Management Germany AG manages property assets valued at about 4.2 bn €. In addition, AAMD by now has investment commitments of the considerable amount of approximately 1 bn €.

According to the investment plans (which are the basis for the client's agreement) the target volume of the property funds managed by AAMD exceeds the invested and committed amounts outlined before and thus are standing for prospective increase of business in the near future. Until 2019 AAMD expects total assets in property funds of 7 bn €. At this time all transactions with regard to the former degi funds will be carried out completely; according to AAMD this will help to strengthen the stability of prospective development in terms of assets under management. Aberdeen's strategic focus is primarily on attending to institutional customer mandates; this is to be implemented by means of individual and customer specific fund products. Due to the historic and expected market developments and the resulting customer requirements, Aberdeen will focus in the future increasingly on special funds whose investment is centred around industrial and residential properties in prime cities. Aberdeen sees the residential sector in Germany as a major growth area. AAMD is particularly well placed in the residential real estate sector, not least because of its outstanding network, including its links to developers. According to Aberdeen, the interest of institutional investors in indirect investments in residential properties, particularly large and medium-size pension funds, but also savings banks and credit institutions as well as religious institutions, remains unchanged. Some investors have invested in several funds of Aberdeen. Aberdeen has an excellent network in the German residential property sector. In addition Aberdeen disposes of a very sophisticated expertise in the European residential market and intends to further expand this strategic field in the future. Aberdeen takes the view that although the residential sector may represent a niche market, residential as a conservative property investment will remain attractive at least in attractive urban and city locations because of a continuous demand for housing. On a risk-adjusted basis the returns for residential are generally higher, even if yields for this area may be lower on an absolute basis.

Now as before, Aberdeen sees a great need for new residential property projects and dwellings in attractive city locations. Aberdeen profits from its excellent network in the residential property sector e.g. to property developers and considers its position in so far well established.

Furthermore, Aberdeen currently sees investment opportunities as part of the transformation of inner-city military, railway and industrial facilities into residential areas. In light of the historically low interest rates for bonds, a reliable cash flow from residential properties has a particular appeal to investors, according to Aberdeen management. Meanwhile, project developers prefer to talk to Aberdeen in its capacity as property manager about

interesting housing projects.

Currently Aberdeen strives to diversify the area of property investments in a broad way consequently following Aberdeen's risk adjusted investment approach. From a strategic point of view investments in industrial property, mixed-use buildings and an increasing part of logistics will be enhanced in addition to residential. For attractive property projects Aberdeen as a real estate asset manager is a preferred cooperation partner for property developers.

This will enable AAMD to demonstrate its competitive edge encompassing a wide range of property areas on account of its financial strength, in particular in respect to forward investments and payment in instalments.

Aberdeen Asset Management Deutschland has recently created a further special real estate fund, another two funds will be launched soon. The Aberdeen German Urbanisation Property Fund, which invests solely in Germany, concentrates on urban residential property in combination with commercial use (mixed-use) as far as reasonable. The fund was set up as an AIFM according to

German investment law. Beyond the group of large institutional investors like insurers and pension plans, also smaller professional investors with a long term view are invited to invest into the fund by using intermediaries thanks to a second share class offered by Aberdeen. In general all single properties should focus on lotsizes between 20 m € up to 100 m € with a maximum of 20% of the fund's target volume for each single asset. The target return is between 3% and 4% p.a..

Geographically its focus is on towns and regions that have potential for growth.

The plan is to secure residential property projects at the very start of construction, giving Aberdeen access at the early planning stages of projects and allowing it to influence planning. AAMD considers this aspect as a competitive advantage in a very competitive real estate market, as well as being able to make forward investments and payment in instalments.

Contrary to general perception, AAMD sees the price level of homes close to their fundamental value.

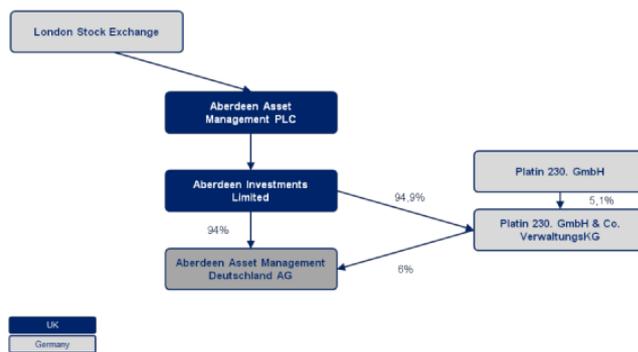


Figure 1: Legal structure of Aberdeen

Investment Process

The investment process has not altered from the previous year. The process is shaped by a focus on risk components and the control of market and process-related risks. Aberdeen developed the Property Investment Process described below and has been applying it at Group level for more than three decades. The explanations below relate solely to the asset class of property. The underlying rating is, consequently, based on Aberdeen's Property Investment Process.

The Property Investment Process primarily comprises the issues of allocation, property selection, and asset or facility management. The investment strategy is implemented in line with clearly defined structures and based on a combination of bottom-up and top-down analysis. The allocation is determined in the first step based on a top-down approach aimed at managing the portfolio risk (beta), whereas the selection of individual properties results from bottom-up analysis. Finally, active property management comes into play as part of the individual property selection process, with the aim of generating alpha. Both the selection of properties by the fund management team and the future property management are conducted in close cooperation with the asset management team.

The process is implemented strictly and pragmatically, as a rule. Moreover, different committees are integrated into the Investment Process for purposes of control and legitimization of the individual process steps: the Investment Strategy Group (ISG) and the Investment Committee (IC). The table below explains the composition of the two committees. Membership on the ISG and IC is basically the same with the one exception that the CIO for property, Russell Chaplin, is a member of the ISG but not of the IC.

Fabian Klingler has acted as the new chairman of the IC / ISG for Continental Europe. Andrews Creighton took over a chair. The ISG has a good balance of international and local staff. IC ensures that the local asset management know-how is fully considered. In the event of financing activities, the "Treasury" department is also integrated into IC.

The exact accountabilities and areas of responsibility of the two committees are explained below. As far as membership on the committees is concerned, Aberdeen places great importance on the involvement of senior management in the decision-making processes at the operative level of the Investment Process.

Here, again, the principle of "people on the ground" is applied, ensuring that the appropriate experts are not just present on site, but that management is involved in the very first investment decisions. The people of IC are dictated by the fund in question. Generally, the composition varies from one fund to another, thus ensuring diversification in the decision-making process.

In addition to the classic Fund Management function, the Investment Process also encompasses the Research and Treasury functions, Asset Management (to perform property management), the Transaction team, and the Fund Controlling and Legal departments to address taxation and legislation issues. The Fund Management, Transaction and Asset Management divisions involved in the investment process are very stable with virtually no fluctuation. New members of staff will shortly be appointed as reinforcement, not least in view of the increased purchase of real estate planned for the future and the associated higher volume of rental space and the management of this real estate.

ISG							
IC							
Region	Chair	Co-Chair	Member	Research*	Asset Management*	Treasury	ISG
Continental Europe	Andrew Creighton (Head of Direct Property – Europe)	Fabian Klingler (Head of Direct Property, Continental Europe) Norbert Kraus	Thomas Wolff (Co-Head, Direct Property, Nordics) Ross Braithwaite (Fund Manager) Marc Pamin (Fund Manager) Russell Chaplin (CIO – Property) Pertti Vanhanen (Global Head of Peropert)	Andrew Allen (Head of Global Property Research and Strategy)	Bernd Bechheim (Head of Asset Management and Transactions, Continental Europe)	Ralf Köhler (Head of Treasury)	Russell Chaplin (CIO – Property) Richard Gale (Global Investment Strategist - Property)
Pan-Europe	Andrew Creighton (Head of Direct Property – Europe)	Fabian Klingler (Head of Direct Property, Continental Europe) Thomas Wolff (Co-Head, Direct Property, Nordics)	Ville Ratio Ross Braithwaite (Fund Manager) Marc Pamin (Fund Manager) Tim Sankey (Fund Manager) Russell Chaplin (CIO – Property) Pertti Vanhanen (Global Head of Peropert)	Andrew Allen (Head of Global Property Research and Strategy)	Regional Head of Asset Management	Ralf Köhler (Head of Treasury)	Russell Chaplin (CIO – Property) Richard Gale (Global Investment Strategist - Property)

*Alternates may be accepted for the research and asset management seats

Figure 2: Structure of the Committees for Continental and Pan Europe

Investment Process in detail:

The Investment Plan defined by Aberdeen forms the starting point for all investment decisions and for managing each client mandate. This Plan is formulated individually for each client to reflect its specific requirements. The Investment Plan serves as the documentation and roadmap of the client's wishes and of the strategic portfolio structure based on these wishes. In collaboration with Asset Management and Research the respective fund manager is responsible for drafting and creating the Plan, and initially works closely with the clients to draw up a draft Investment Plan. Numerous criteria are defined, which reflect the investor's requirements and ultimately drive Fund Management's investment decisions when structuring the portfolio. Specific model portfolios provide a basis for discussion and can be used to show clients appropriate forecasts of the property assets. In addition to a clear definition of the investment and/or performance targets, the compulsory risk profile is specified in detail, based on the individual risk budget. As the Investment Process evolves, this risk budget defined by the client forms the basis for all investment decisions. This is based on the thinking that AAMD can control risks, but cannot control market returns. The financial indicators are also recorded in the Investment Plan in collaboration with Treasury. The client's required liquidity quotas, tenant creditworthiness ratings, investment universe and, not least, maximum borrowing ratios are defined and recorded. Any client preferences in respect of the geographical distribution of the real estate is also noted. When advising clients, the fund managers can draw on extensive support from the in-house (and Group-wide) research teams and their documentation. The property market forecasts developed by Aberdeen on the basis of the Group's own research findings form the basis. Stephan Schanz as Head of Real Estate Research & Strategy at Aberdeen in Germany acts in close coordination with 10 colleagues of the global team based in London. Group-wide, these research findings are updated on a quarterly basis. IPD even provides the real estate market data for Great Britain on a daily basis. Focus differs across Europe. Particularly thorough research coverage is possible in Great Britain, Germany and Scandinavia, together with the mature Asian markets. Aberdeen intends to expand its in-house research to include emerging markets in future. Overall, the fund managers can access research findings from 36 countries.

Various back-testing procedures and regression analyses ensure the excellent quality of Aberdeen's forecasting. The interest rate and currency forecasts needed for the treasury function are also prepared by Aberdeen at Group level and are available at all times. External sources of data from providers such as Reuters, IPD, PMA, Jones Lang Lasalle or CB Richard Ellis offer additional sources of information that ultimately serve to confirm the company's own research findings. Priority is always clearly given to in-house research.

During the drafting of the Investment Plan, Research submits recommendations to Fund Management. In addition to geographical allocation, these also include suggestions with regard to allocation among the various types of utilization. Research also defines bandwidths within which Fund Management should act, together with maximum deviation limits. The integration of in-house research plays a key role in the preparation of the Investment Plan. Once all of the requirements and targets have been specified in the draft Investment Plan, it must be given final approval by the ISG. Investment Plans or client portfolios may not be implemented without the approval of the ISG. It reviews, for example, whether the defined investment strategy and associated requirements, and the defined portfolio structure are realizable. It also reviews whether the targets are feasible, and whether they reflect the findings and/or recommendations of the research team. Following review, and once the final Investment Plan has been concluded, the client portfolio can be established. From then on, a "Quarterly Health Check" is performed to review compliance with the specifications of the Investment Plan. The Investment Committee is responsible for performing these checks. If deviations

have occurred, they must be remedied by Fund Management and submitted for renewed review by the IC.

Experience has shown that the initial creation of the Investment Plan takes ~ 6-8 weeks, while the annual update of the Plan takes ~ 6 weeks. The Investment Plan constitutes a crucial and integral part of the Investment Process, and forms the basis for all actions. It is the starting point for all downstream steps in the Investment Process. The first step in structuring the portfolio comprises the allocation of the fund volume to the countries, locations and types of utilization in line with the requirements and client's risk profile as specified in the Investment Plan. This process is followed by the selection of the individual properties based on bottom-up analysis. The entire selection process is conducted on a team basis involving both Fund Management and Asset Management, but also Research, Transaction Management, Treasury, Fund Controlling and the "Tax & Legal" team. The fund manager identifies a potential property that meets the fundamental data, based on the investment plan. By doing the bottom-up analysis fundamental data are considered and total return as well as sensitivity analysis and risk contribution to the portfolio are calculated. The input is provided by Fund Controlling and Research. Treasury is then brought in to collaborate on possible financing and hedging measures. Overall, Aberdeen is with ~ 80 banks in contact. The loan terms are increasingly individualized, to prevent possible maturity mismatches, such as differential prepayment penalty or unscheduled repayment options. The loans from KfW are increasingly used for credit financing of residential real estate (subsidies for energy-saving renovations / conversions). In addition, the asset management is for commercial and technical due diligence of the property responsible. The results of the due diligence will be hold in the form of formal reports. For each purchase and sale decision, the Fund Manager requires the consent of the ICs. Also any financing a Property must be approved by the IC. In addition, Asset Management is responsible for performing commercial and technical due diligence on the property. The due diligence findings are recorded in a formal report. The fund manager must obtain IC approval for each and every purchase and sale decision. Equally, the IC must approve any property financing transactions.



Figure 3: The Investment Process

Selection:

A job of the transaction manager is to identify suitable properties and propose them to the fund manager. "Propex" is an important tool used in transaction management. This external database allows data relating to the individual properties to be entered locally by the transaction manager and subsequently reviewed by the fund manager. The local transaction managers gather information about any local properties for sale and record the property-specific details, such as type of utilization, purchase price, quality of location/location, residual terms of existing lease contracts, together with information about the current tenant structure and credit ratings of the tenants, in Propex. Documents or files can also be stored on request, such as layout plans or views. Weekly "Introduction Calls" take place between the transaction manager, the responsible asset managers, Research, and

the fund managers who are interested in the property. In order to avoid potential conflicts between the fund managers and to ensure adherence to a structured approach, Aberdeen has formulated its so-called "Conflicts of Interest Policy" to govern a decision-making procedure when fund managers for different funds all want the same property. According to Fund Management, there is, however, very little need for the procedure, which is more of a formal nature.

During the last year the selection process was improved and adjusted in a qualitative way. Potential investments are selected in a two-step-process by the fund management and all additional divisions involved in the process, which is dominated by the guideline "quality first, then price". "Quality and Price" determine the approach of the selection process. The level of quality of the selected properties is discussed within a screening-meeting, which is chaired by the regional head of transaction management. The real estate quality is defined by the requirements of generating stable rental income and ensuring long-term growth potential. The duration of the lease term periods and the potential vacancy risk are the main drivers for the stability of the rental income. The growth potential is a result of a long-term mismatch between supply and demand, which may be caused for instance by demographic circumstances, monopoly-like location and consumer trends. As a result, the observed properties are assigned to one of the four quality categories (see fig. 4).

The classification is at least used as a risk map by the fund manager. The fund manager uses the map in order to select the properties while meeting the risk budget of the mandate and the customer-specific requirements, which are pre-defined in the investment plan.



Figure 4: Quality

The second step of the investment process serves for screening the acceptability of the price level of the selected property, which passed the quality screening successfully. Consequently Aberdeen uses a new, proprietary tool. The so called "Team Assumption Underwriting Tool" (TAUT) is established group-wide. This is used to calculate the fundamental value of the properties. The input-data are up-dated on a quarterly basis. The attractiveness of location, stability of the rental income, tenants quality, useful economic lifetime and individual characteristic are considered on property level. All considered criteria are assessed by a score-system in the range from 1-5. The aggregation of the scores determines the risk premium, which is used as the discount factor of the discounted cash flow model. All members of fund management, asset management, transaction management and research contribute to the quantitative valuation. Consequently all parties will be involved in the selection process upon the purchase of a property. The estimated value of the property is compared to the sale respectively purchasing price and is checked regarding acceptability. The difference will be an important indicator for a purchase/ sale of a property investment.

Group-wide, Aberdeen has defined a check-list with a

scorecard system to meet the requirements for socially responsible investment. However in detail the specific requirements depend on the individual mandate. Specific SRI-criteria are documented in the investment plan. This includes for example criteria like saving of energy, concepts for water supply and disposal or the reduction of environmental pollution. The issue of the sustainability of real estate is resolutely pursued within the Aberdeen Group and underpinned by the introduction of personnel and bodies responsible for ensuring it. Specific attention is paid to the presence of relevant certifications, and AAMD is working with selected professional property management providers to this end. In principle, Aberdeen seeks to select energetic properties which should be highly efficient. In the living area, incidental expenses (so-called "2nd rent") play an increasingly important role, and that is why Aberdeen pays special attention to energy-saving construction. The local presence of the specialized transaction managers is an absolutely key element in assuring the quality of property selection and, ultimately, the success of the Investment Process.

Asset management of the individual properties:

Asset Management is not just involved in the selection of the individual properties; it also bears overall responsibility for actively managing all the property assets of Aberdeen. Since property is one asset class where the returns really can be influenced by active management, this area plays an enormously important role at Aberdeen.

Active management of the properties in the portfolios is based on a so-called "Asset Management Plan". It is drafted before the property is acquired and updated once a year to reflect the latest research findings. The Plan lists in detail all of the property-specific modernization, renovation, refurbishment or modification measures over a period of 3-5 years, and specifies a detailed schedule. The timing of routine lease contract negotiations, especially for commercial space, is also specified in advance.



Figure 5: Categorisation of Assets

Aberdeen categorizes its assets for getting a clear overview and planning of the asset management measures (see fig. 5). The appropriate assignment to the single classifications gives an information about the way and intensity of necessary and planned asset management actions.

The changes in cash flow from the property that are expected to result from the planned adjustments, contracts or modernization projects are calculated in detail and documented. Asset Management submits buy & hold recommendations to Fund Management ("Hold & Sell Plan"). Ultimately, however, the fund manager is solely responsible for deciding whether to buy or sell, subject to approval by the Investment Committee.

Aberdeen is particularly involved within Residential funds in project developments (~ 30 properties under construction). Due to the early stage integration of the

asset management members, Aberdeen is able to influence structural components in order to ensure the best rental situation in the future. This is in line with the strong and property-specific risk management, that Aberdeen aims at. In the context of so-called ancillary works Aberdeen sees great potential in the future, especially as regards ancillary payments.

All of the measures defined and implemented by Asset Management are formulated in a formal report to the Risk Management, together with the current status of property management. This report contains a detailed schedule and monthly evaluation of various risk indicators, together with target/actual analysis. Each property is analysed individually. Risk assessment is not performed in line with a uniformly categorized system. The analysis is based on the competence of the Asset Management team. Clearly pre-defined requirements govern the selection of tenants. However, the need to use them within the Aberdeen Group is minimal and of a rather more formalised nature, according to Portfolio Management, on account of the Group's well defined portfolio. Property Management stipulates specified creditworthiness criteria, especially for residential properties where management prefers standardized lease contracts, given the high degree of tenant fluctuation and smaller rental units in this segment. By contrast, lease contracts for commercial space are generally negotiated, with the involvement of Asset Management under certain circumstances. If Asset Management measures valued at more than ~ 3 million euros are planned, the Investment Committee will be consulted. Generally, however, this "critical figure" must be seen in relation to the value of the property and total volume of the underlying fund. The number of properties managed by an individual asset manager is governed by factors such as

size, type of utilization and number of rental units (single or multi-tenant) of the corresponding properties, and the workload involved.

Treasury:

Complying with, and planning, matching maturities is particularly important for this asset class with its low level of fungibility. The two departments of fund management and treasury always work together on scheduling and coordination. To reduce costs and avoid mismatched maturities, the loan offers obtained are matched with the respective portfolio strategy. This includes for example graduated repayment penalties or the right of unscheduled repayments. Aberdeen AM Deutschland has defined its position for the third-party financing of real estate within a fixed framework, against the background of its systematic risk management approach and low interest rates. It adheres to the clear principle that the more a property is classified as being "overpriced", the lower the third-party financing quota may be. Aberdeen pays heed keeping the risk-return-ratio of the funds well balanced. The current environment of low interest rate levels, with the potential risk of rising yield in the future, cause a higher demand for forward agreements for the investor's benefit in order to secure low interest rates even for the future. The treasury department is currently monitoring about 80 banks, which may be considered as potential cooperation partners. Increasingly Aberdeen involves banks into debt agreements which are standing for supporting social dominated residential property projects.

An investment fund generally holds a property for 7-10 years on average.

Quality Management

In relation to risk management AAMD is integrated into the worldwide network of Aberdeen. A distinction is made between the two areas of business risk and investment risk, both of which are integrated at Group level in the sense of quality management. The "Property Operations" division falls within the remit of Steffen Schütz.

The investment risk is monitored by the Risk Management, the Investment Committee and Fund Controlling. In addition to the involvement of various committees, the Investment Plans for the individual clients are subjected to ongoing quality checks at Group level. These quality checks review quality standards that are defined across the Group, together with the consistency of the Investment Plans, all of which serve as the essential starting point for ensuring compliance with the risk profile specified by the client. The decisions by the IC with regard to approval of Investment Plans are also based on the Group-wide Aberdeen standards. The Investment Plans, which form an essential part of the Investment Process, are subjected to "Quarterly Health Checks", which serve to check and monitor adherence to the targets defined in the Investment Plan.

In addition, Aberdeen highlights the integration of the senior management level in the earliest phases of the property investment decision-making process. The "people on the ground" principle emphasizes the huge importance attached to a local presence of the responsible experts for selecting, buying and selling properties.

Since a short while Aberdeen has access to a subsidiary of Aberdeen group, Aberdeen Global Services SA, Luxembourg, in terms of outsourcing its risk management functions. The underlying agreement settles all tasks and processes in taking over the risk management and risk control of AAMD by Aberdeen Global Services SA. Before, the complete risk management functions were directly processed by AAMD. Among the new legal framework AAMD is in charge to deliver all relevant data regarding risk management to Aberdeen Global Services SA., which

returns the processed information back to AAMD on the basis of the documentation having received beforehand.

AAMD can refer to a German speaking staff member in Luxembourg. Part of this process is supplying full documentation also of fund data including risk criteria like vacancy quota of each property, debt lines or lending limits according to the Investment Plan. Afterwards these reports are examined by Mr. Göbel. As a member of the risk management team in charge he has to check to what extent the statements of the reports are conclusive and plausible. A respective reporting will directly be forwarded to the management board of AAMD.

Aberdeen introduced a web-based risk management system at Group level several years ago to manage its business risks. This so-called Operational Risk Tool monitors, documents and quantifies various sources of risk. All of the staff can access the tool, thus ensuring that even the tiniest potential damages/events in the various companies, divisions and departments throughout the Group can be captured. For orientation purposes, Aberdeen's risk management defines a risk map for all potentially possible risks at departmental level. The required interviews with fund managers and the individual departments are conducted on a monthly basis. Communication with Top Management is in accordance with the escalation level.

Part of Fund Controlling's task is to compare benchmarks and external performance measurement data, together with attribution analyses. The attribution analyses are generally prepared on a monthly basis. The analyses contain information and identification, for example, of performance drivers in the various sectors and regions. They highlight possible currency effects and financing costs, as well as administration costs. Equally, they can distinguish between contributions to performance from ordinary and extraordinary income. Data flow is carried out via the "eFront" software.

To evaluate the fund properties, Aberdeen has commissioned external evaluators with national and inter-

national experience. Based on the evaluation guidelines of the respective fund, the market value is calculated using the earnings value method and international evaluation methods such as the DCF method. In addition, Aberdeen has drafted a catalogue of criteria to determine any need for unscheduled valuations of the portfolio properties. These criteria are subject to ongoing review to identify any need for adjustments in an ever changing environment. The Quality and Risk Management is much more important on the level of single properties. This is not at least because of the classification of the assets for determining the asset management activities. The guideline "property-specific risk can be managed actively, but no market risks" is underlined by that. There is a warning system if, for instance, the vacancy rate increases, or in case of a very high tenant fluctuation. This is followed by a

Team

Including all of the departments involved in the Investment Process – Research, Fund Management, Asset Management, Fund Controlling, Treasury, Transactions team – some 70 members of staff in total are engaged in property management. They include fund managers and deputy fund managers, together with members of the Transaction Management, Treasury, Asset Management and Research departments of Aberdeen Asset Management Germany AG. At Group level, a further 350 members of the Property team are available in total. Within the Group, great importance is attached to collaboration among the local teams in the various countries to enable full use to be made of the regional, local and international expertise. The culture of the investment function at Aberdeen Asset Management Germany AG is extremely team-oriented overall. All of the staff are highly qualified, with extensive expertise in the field of real estate. Added to which, the members of the investment team offer huge diversity in terms of added qualifications and professional

subsequent meeting with fund managers and documentation for CIO Property. Aberdeen AM Deutschland produces data and figures for internal purposes and for individual clients in the form of reports (e.g. in line with Solvency II).

In addition to regular checks for limit violations within the individual property funds, simulated limit checks are performed when purchasing or selling a property. They are a crucial element of the decision support package and vital for obtaining the consent of the Investment Committee to buy or sell a property. The Aberdeen Academy takes place on a quarterly basis. The Academy is used to exchange experiences between the fund managers of the different countries regarding successful transactions and transactions that may not have proved as successful. Generally, Aberdeen can draw on fully comprehensive, system-supported risk management at all levels of the process.

experience. Since the language culture at Aberdeen is equally diverse, local challenges on foreign property markets do not pose any problems. In that regard, it can be said that in recent years, further harmonization of the internal organizational structure has taken place. Meanwhile one of the board members, Mr. Michael Determann, retired. His responsibilities were taken over by the two remaining board members, Dr. Hartmut Leser and Fabian Klingler. Dr. Hartmut Leser as chairman of the board was in charge of sales and marketing activities. In addition his field of activity now encompasses risk management, human resources, fund accounting and finance. Fabian Klingler already was in charge of property fund management, investment management, transaction management and asset management. Now he takes over responsibility for the departments of taxes, internal audit, law and compliance additionally.



AAA
09/2017

Aberdeen

Property Investment Process Rating

TELOS Rating Scale

AAA	The investment process complies with highest quality standards
AA	The investment process complies with very high quality standards
A	The investment process complies with high quality standards
+ / -	further differentiate within a rating level

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