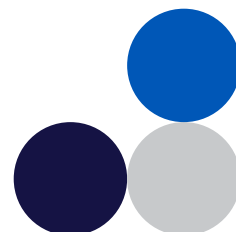


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# Aberdeen European Residential Opportunities Fund

Quarterly report, Q2 2022 – Unaudited  
Bond version

[abrdn.com](http://abrdn.com)



# General Information

## Registered Office

Aberdeen European Residential Opportunities Fund  
société en commandite spéciale  
société d'investissement à capital variable – fonds  
d'investissement spécialisé  
35a, avenue John F. Kennedy  
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Grand-Duchy of Luxembourg

## General Partner

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Grand-Duchy of Luxembourg

## Alternative Investment Fund Manager (AIFM), Risk Management and Portfolio Management

Aberdeen Standard Investments Luxembourg S.A.  
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Grand Duchy of Luxembourg

## Fund Team

Mr Christian Schjødt-Eriksen, Senior Fund Manager  
Mr Michael Schumann, Fund Manager  
Ms Mihaela Ruhl, Fund Manager  
Ms Samira Müller, Fund Controller  
Mr Ralf Köhler, Head of Private Markets and Real Estate  
Structuring EMEA

## Portfolio Manager

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London EC4M 9HH  
United Kingdom

## Combined Investment Advisor & Asset Manager

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Germany

## Combined Investment Advisor & Asset Manager

Aberdeen Asset Management Denmark A/S  
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Denmark

## Independent Advisors

### Legal Advisor

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L-1855 Luxembourg  
Grand-Duchy of Luxembourg

### Tax Advisor

Deloitte Tax & Consulting S.à r.l.  
560, rue de Neudorf  
L-2220 Luxembourg  
Grand-Duchy of Luxembourg

### Auditor

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35e, avenue John F. Kennedy  
L-1855 Luxembourg  
Grand-Duchy of Luxembourg

### Valuation Advisor

Cushman & Wakefield, Germany  
Cushman & Wakefield, UK  
Cushman & Wakefield, Sweden  
Cushman & Wakefield, Denmark  
Cushman & Wakefield, Finland

## Depositary, Paying Agent, Central Administration Agent, Registrar Agent

RBC Investor Services Bank S.A.  
14, Porte de France  
L-4360 Esch-sur-Alzette  
Grand-Duchy of Luxembourg

## Board of Managers of the managing general partner of the Fund

Neil Slater (Chairman), Global Head of Real Estate and Deputy Head of Private Markets, abrdn

Ian Little, Chief Oversight Officer, abrdn

Elisabeth Weiland, Director

## Board of Directors of the AIFM

Alan Hawthorn, Head of Investor Services, abrdn

Hugh Young, Managing Director, abrdn

Andreia Camara, Head of Risk Management Luxembourg & Conducting Officer, abrdn

Soraya Hashimzai, Head of Governance, Continental Europe/Conducting Officer – Product Development & Management, abrdn

Helen Webster, Head of Luxembourg, Managing Director, abrdn

## Investment Committee\*

Role	UK	Continental	Nordics
Standing member	Neil Slater	Neil Slater	Neil Slater
Standing member	Anne Breen	Anne Breen	Anne Breen
Chair/Alternate Chair	Robert Cass	Fabian Klingler	Robert Cass
Chair/Alternate Chair	Simon Moscow	Bernd Bechheim	Simon Moscow
Chair/Alternate Chair			Fabian Klingler
Chair/Alternate Chair			Bernd Bechheim
Voting member	Jason Baggaley	Marc Pamin	Jason Baggaley
Voting member	Graham Porter	Mihaela Ruhl	
Voting member	David Hedalen	Norbert Kraus	
Voting member	John Brophy	Jason Baggaley	
Voting member	Craig Wright		

\*Committees will be organised with majority regional voting members. However, when required, non-regional voting members or Chairs can be called to attend and vote.

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# Executive summary

## Economic Outlook

- Activity data reveals that a slowdown is underway, with a more marked deterioration across manufacturing in particular. Industry has been limited by soaring input prices, persistent supply chain pressures, trade disruptions, tighter financial conditions, and uncertainty effects. Services have been more resilient, benefiting the most from the reopening of activities. But they will likely capitulate as real incomes and household savings are eroded by rising inflation – highlighted by the latest record low in consumer confidence in June.
- Demand is set to weaken, with risks of recessions rising. We expect a stagnation this year, with weak gross domestic product (GDP) growth around 0.2% in the second quarter, before a contraction around 0.4% in the third quarter and then flat in the fourth quarter. Germany and the euro area face recessionary risks, further exacerbated by the increasing risks of gas shortages. Yearly growth could still be above trend, supported by carry-over effects from last year. Beyond 2022, a hiking cycle from the ECB or the spill over of a potential US recession could drag the euro area economy into recession in late-2023.
- Inflation reached 8.6% in June and will likely increase at least until September. While energy remains the main driver (41.9% year-on-year), inflationary pressures are broadening to food, alcohol, tobacco (8.9% year-on-year), and core inflation. Core actually inched down in June (3.7%) as a marginal increase in goods was offset by a moderation in services. Yet this is likely to be a temporary effect from government subsidies, notably in Germany. Amid high uncertainty, inflation looks set to rise further in the third quarter, before decelerating in the fourth quarter. This follows tighter policy and financial conditions, a slowdown in spending and activity, and base effects.
- However, the increasing risk of gas shortages would add significant upward pressure to prices. Under a severe scenario, the ECB has estimated that a complete cut in Russian energy from the third quarter would add around 1% to annual average inflation this year, and 3% in 2023. The impact might end up being offset by policy response, depending to what extent governments will be able to switch to other sources of energy (including coal) and provide targeted fiscal support.
- The ECB revised both its forecasts and guidance in June. It announced the policy lift-off in July, and increased the deposit rate by 50 basis points and we now expect a further 50 bps hike in September. The challenge is the ECB will also have to tame inflation while limiting fragmentation. As we think that more than just words will ultimately be required to calm market nerves, the new 'anti-fragmentation instrument' should be deployed by the ECB to keep a lid on EU government spreads and to proceed with its tightening cycle.



Paper Tower, Silkeborg, Denmark

- The ECB will have to sail on these turbulent waters. Given the accelerated response from the ECB, and the rising menace of another energy price shock, we also see risks tilted toward a faster tightening this year, despite the downside for activity and aggravating risks of a recession. Yet, we are less optimistic than the ECB on the growth outlook. Therefore, from mid-2023, we think weaker growth would prompt the ECB to take a more cautious stance.

## Investment market trends

- Based on data by RCA, investment over the 12 months to the second quarter of 2022 was 24% higher than the same period in the previous year. However, the second quarter of 2022 showed a notable slowdown, with a 25% decrease in volumes compared with the second quarter of 2021 (second quarter of 2022 was €59.2 billion; the second quarter of 2021 was €74.3 billion).
- The polarisation between sectors remains very relevant. Deal momentum has slowed down in the second quarter of 2022 across all sectors except residential. Office transactions in the second quarter of 2022 were down 16% quarter-on-quarter, but the sector remains the biggest. Retail was down just 1%, but was already quite subdued since falling out of favour as the rise of e-commerce took hold. Industrial has experienced an abrupt slowdown, falling 37%. This was no surprise since the sector has come from a relatively high position and was more sought after than other sectors last year, hence decelerating more rapidly. Moreover, pricing is relatively aggressive and debt costs have gone up, cooling flows into the sector. Despite a decreased
- deal momentum, the average for industrials in the second quarter of 2022 remains 49.6% higher than the long-term average for the second quarter. Residential remains relatively strong with a 17% increase in the second quarter of 2022 as investors continue to deploy the capital raised for the sector in recent years.
- From a regional perspective, the largest share of investment was made in Germany (26.2%) followed by the UK (23.4%) and the Nordic markets (15.2%). France ranked fourth (9.5%) in the second quarter of 2022, with a notably lower volume. Data by RCA shows that during the 12 months to the second quarter of 2022, investments in Germany were 49% higher than a year ago, but momentum has been slowing down rapidly since. The French market has seen a significant slowdown due to the pressure on the retail and office sectors, both of which the country depends heavily. The Netherlands retained its position as the fifth-biggest market in Europe (5.3%), despite a slowdown in its industrial volumes (-7%) in the second quarter of 2022.
- Cross-border capital accounted for around 50% of the second-quarter volume, the highest volume in the last three years. The largest cross-border source remains the United States, which increased by 40% over the year to the second quarter of 2022. The euro's slide towards parity with the dollar for the first time in 20 years could further support flows from the US in the coming years. A notable trend is the lack of investments by REITs, with net purchases at their lowest level at just 5.5% of the total. This is for two reasons: depressed share prices make it difficult for REITs to raise new equity to invest; while the increase in debt costs further fuels challenges for REITs to invest as they are heavily dependent on leverage.



Transformerverkstaden, Stockholm, Sweden



- Rising costs for financing have caused outward shifts in yields in several geographies and sectors, implying weakening valuations. According to CBRE, 25% of segments in the sample yield sheet saw an outward yield shift in June, up from 7% in May 2022. The segments that saw the most outward yield shift were those most sensitive to increasing interest rates. This mainly affected prime offices (Munich +15 bps, Paris +20 bps, Brussels +35 bps, Amsterdam +25 bps), prime logistics, and various Nordic markets where the hiking cycle is more advanced. We expect further outward yield shift in the second half of 2022 given continued pressure from tighter spreads.

## Market outlook

- As described above, the changing global economic outlook is having an impact on investment markets in Europe. Higher interest rates are having strong implications for the cost of debt and relative pricing of cash flows derived from real estate assets. However, occupier markets are yet to react to the weaker prognosis for the economic outlook and are generally lagging.
- The major difference we are seeing at this point in the cycle, compared with others, is a far lower level of development activity in most locations and across all sectors. There are a number of reasons for this including difficulties acquiring sites, tighter planning policy, higher construction and labour costs, difficulties securing development funding, and the well-known problems facing supply chains for building materials. In May 2022, construction costs increased by 17.6% year-on-year in Germany, by 13.4% in Italy and by roughly 10% in Sweden, Spain and the Netherlands. On top of this, our abrdn treasury survey reported a 36 bp increase in development funding margins being offered by banks for new projects. This is in addition to the Euribor five-year swap rate that has risen by over 200 bps in the first half of 2022. The overall ability for new projects to come through looks increasingly challenging. Greater scrutiny on building efficiency and ESG criteria is likely to further exacerbate the supply shortages in the markets.
- We believe ESG will really make its mark on real estate performance in the coming years. New legislation across European markets is in various stages of development, but it will ultimately make it difficult, uneconomical or unlawful to occupy buildings that do not meet very good energy efficiency standards. In the UK, a government consultation run by the Department for Business, Energy and Industrial Strategy (DBEIS) is looking at how to enforce a rule that all private rented commercial property will need to have an energy performance certificate (EPC) above 'B' by 2030. Savills estimates

that this would place over 80% of total UK stock in obsolescence if no improvements were made to energy ratings from today.

- In addition to tightening regulations, and as we move towards the key Paris Agreement and COP26 target dates of 2030 and 2050, valuers are set to take a more punitive approach to 'brown discounts'. In early 2022, RICS released formal guidance to valuers in the UK and Europe on how to value 'green capex'. Buildings that do not conform to stringent efficiency requirements will be increasingly penalised by valuers, considering how much it would cost to bring them into line with efficiency standards. The combination of tighter regulation and better-informed valuation practices is likely to drive a wedge between assets that are 'future fit' and those that are not. Indeed, we believe that energy efficiency and the wider ESG drive will be one of the largest differentiators in asset performance over the next decade.
- **Rented residential** real estate has continued to prove resilient and popular with investors during the recent market turmoil. Vacancy rates remain very low according to listed residential managers and we do not anticipate any major changes to occupancy in the medium term. Given the cost inflation and the shortage of construction materials, there is a risk of new housing supply lagging expectations even further. This would bring additional pressure into already tight housing markets. In addition, we expect a further tightening of ESG-related regulation in Europe. For example, a new model is being introduced in Germany to split the CO<sub>2</sub>-related cost of emissions between the landlord and the tenant, depending on the energy-specific quality of the building.
- House prices have increased significantly in Europe over the last decade, increasing the average loan volume required to buy a residence. With higher interest rates charged on larger mortgages, the affordability of the home ownership model could become more challenging for many households. The latest data from Refinitiv suggests new mortgage costs in Europe have increased by roughly 0.5 percentage points in the first half of 2022 from 1.75% to 2.25%. The house-price-to-rent ratio has been increasing for the last 20 years across Europe. This indicates that house prices have been rising far faster than rental levels, making it more affordable for people to rent on a relative basis. A downturn in the housing market would further support the continued trend of renting being the preferred (or only) option for households.
- **Alternative and operational real estate** sectors are attracting a lot of attention from investors given the strong thematic tailwinds they can capture. The ability to

positively influence the ESG agenda through living- and care-related real estate, in particular, means investors are also increasingly interested in non-traditional sectors. Tight labour-market conditions and rising input costs are creating strains on profitability for some operators, but the long-term drivers remain in place.

- Hotels are the stand out segment from an operational performance perspective so far in 2022. Hotel operators are reporting occupancy rates back over 90% as we enter the summer months in Europe, with average daily rates and revenues per available room rising back towards pre-pandemic levels. Indeed, high occupancy and higher operational and staffing costs are pushing hotels to charge higher daily rates as tourists and business travellers struggle to find suitable hotels at a reasonable price-point in many cities. We anticipate leisure and tourism to be one of the stronger segments of the European economy over the next few years as mobility and tourism improve further.
- **Office** leasing recovered remarkably well across most European markets as companies play catch-up from the pandemic. Take-up reached 2.2 million square metres (sqm) in the first quarter of 2022, a 38% increase on the same period in 2021 and the third-highest first-quarter level in over a decade. Emerging sources of demand have helped offset some of the negative headwinds from increased working from home and

high levels of grey space in existing buildings. Life sciences, technology companies, flexible office providers and additional demand created by record levels of corporate merger and acquisition activity in 2021 have supported leasing appetite. Flexible office occupation now accounts for 6% of the total London office market, 4.5% of the Amsterdam market and 2.5% of the Madrid and Dublin office markets. The overall rate is growing at roughly 1.2% per annum. Demand from life sciences has added up to 2% to total office take-up in the first half of 2022, in some major office markets and particularly those with strong university presence or existing life science agglomerations.

- Office vacancy remains low at roughly 7.2%, although a wide spread between CBD and out-of-town locations (as well as across the quality spectrum) persists. As an example, vacancy in La Defense is in excess of 13% compared with 2.5% in Paris CBD. This is resulting in prime headline rents continuing to rise, up 2.2% year-on-year across Europe on average in the second quarter of 2022. According to Savills, the best performing cities were Munich (18.4%), Oslo (12.2%) and Amsterdam (11.1%), while Frankfurt (-7.2%), Cologne (-4.5%) and Barcelona (-1.8%) observed falls. Rents in excess of €1,000 per sqm have been reported in some leasing deals in Paris CBD, although it is unclear what incentives have been granted.



Kista - Anholt, Stockholm, Sweden



- We still expect a two-speed office rental market to persist. Secondary offices will underperform, while prime ESG-compliant space remains most desirable and also least available. This supports better leasing conditions and estimated rental values. New supply is expected to average 0.5% of existing stock per annum in Europe over the next five years, maintaining a tight squeeze on high-quality supply. We expect the shortfall in good-quality offices to intensify given the rising cost and delays to construction projects and the requirement for higher ESG credentials.

## Fund performance and commentary

The return for Q2 2022 was -4.7% (Q1 -0.6%) for Class A and -12.5% (Q1 -3.1%) for Class B shares respectively (NAV performance). For both share classes, market performance was brought into negative territory by a negative movement in external property valuations, operating costs and interest expense at property and fund level as well as a decline in the SEK vs. EUR. For Class A, the effect of currency hedging was again positive for this quarter, contributing 7.9%-points. In relation to property valuations, write downs were particularly pronounced for the Craighouse project in Edinburgh as well as the Swedish projects and La Tour in Denmark as further cost inflation was built into the external valuations. Part of these cost increases are further cost contingencies.

The Fund has total committed capital of €270.1 million. €252.3 million is committed in Class A, the US dollar-denominated share class, and €17.8 million in Class B, the euro-denominated share class. The Fund has, so far, called €250.6 million (unchanged from the first quarter), leaving €19.5 million of uncalled commitments.

The Fund's investment period expired on 12 June 2020, and the three-year harvesting period began. With the capital commitments allocated to finance 15 projects in the UK, Germany, Denmark, Sweden and Finland, the Fund was fully committed approximately two and a half years into the Investment Period.

Subsequent to the war in Ukraine, rising interest rates and declining consumer confidence, condo sales activity has slowed somewhat, although the Fund has continued to see activity across its projects. The Fund continued to explore potential interest from buyers and/or forward funding partners on some of the remaining projects. These processes may lead to some type of exit/de-risking over the next few quarters.

During the quarter, part of UNITY Tampere completed and opened in mid-May with 64 micro-living units in the first phase. In parallel, UNITY Hammarby Sjöstad experienced strong operational performance, with occupancy continuing to ramp up and approaching close to 100% on certain dates.

In relation to financing activity, the Fund progressed the planned construction financing on Kista Anholt which is expected to be secured and drawn by September 2022. In parallel, some loan extensions and refinancings in Finland, Sweden and the UK are ongoing as loans expire or completed assets move from the construction phase to operating, cash flow generating properties.

In general, over the past 2½ years, 'Covid-19 has resulted in delays for some projects, although not significant and for other projects the Fund decided to postpone commencement of construction or slowed down certain phases due to the uncertainty. However, while it is still too early to assess the overall final impact, Covid-19 clearly has had an effect on condominium sales activity, construction costs, project timing, terms and availability of construction debt financing and, potentially, on exit prices as well.

The fund team has also commenced the work in relation to seeking approval for using the two year extension option of the Fund in order to secure sufficient time for all exits as well as to satisfy lender requirements.

## 2022 top priorities for the portfolio

- Ensure strong and structured execution of the secured projects, according to time, budget and specifications
- Secure construction financing of the remaining projects and relevant refinancings
- Sell completed condo projects and explore exits for certain projects
- Maintain a sufficient liquidity buffer as a key risk management tool
- Seek approval for using the two year extension option in order to secure sufficient time for all exits as well as to satisfy lender requirements

# Key data

€m unless otherwise specified	Q2 2022	Q1 2022	2021	Chg Q1 22 to Q2 22
<b>Fund earnings data</b>				
Total income	1.4	0.5	0.9	207.1%
Net Operating Income	-2.5	-3.7	-35.7	NM
Total return Class A	-4.7%	-0.6%	-1.7%	-4.1pp
Total return Class B	-12.5%	-3.1%	-8.5%	-9.4pp
Accumulated return since inception Class A	-8.5%	-4.0%	-3.5%	-4.5pp
Accumulated return since inception Class B	-21.1%	-9.8%	-6.9%	-11.3pp
Current NAV vs average of capital calls Class A	96.7%	101.5%	102.1%	-4.8pp
Current NAV vs average of capital calls Class B	82.1%	93.9%	96.9%	-11.8pp
<b>Fund balance sheet data</b>				
Total assets	546.4	563.3	567.3	-3.0%
Investment property (Lux GAAP)	449.6	447.2	435.7	0.5%
Total loans	248.8	247.1	224.4	0.7%
Net Asset Value (NAV) – Class A	228.7	239.9	241.4	NM
Net Asset Value (NAV) – Class B	13.3	15.2	15.7	NM
NAV per share – Class A (€)	8.13	8.53	8.58	-4.7%
NAV per share – Class B (€)	7.89	9.02	9.31	-12.5%
Number of shares – Class A	28,124,514	28,124,514	28,124,514	0.0%
Number of shares – Class B	1,681,900	1,681,900	1,681,900	0.0%
Loan to value (Fund LTV)	45.5%	43.9%	39.6%	1.7pp
Loan to value (PGAV level)	55.3%	55.2%	51.5%	0.1pp
Equity committed	270.1 <sup>A</sup>	269.0 <sup>A</sup>	268.6 <sup>A</sup>	0.4%
Equity drawn	250.6	250.6	250.6	0.0%
<b>Property data</b>				
Number of properties	12	12	14	-
Existing space (sqm)	48,523	48,523	52,822	0.0%
Fully developed (sqm)	180,026	180,026	254,469	0.0%
Total invested capital	461.3	434.9	425.1	6.1%

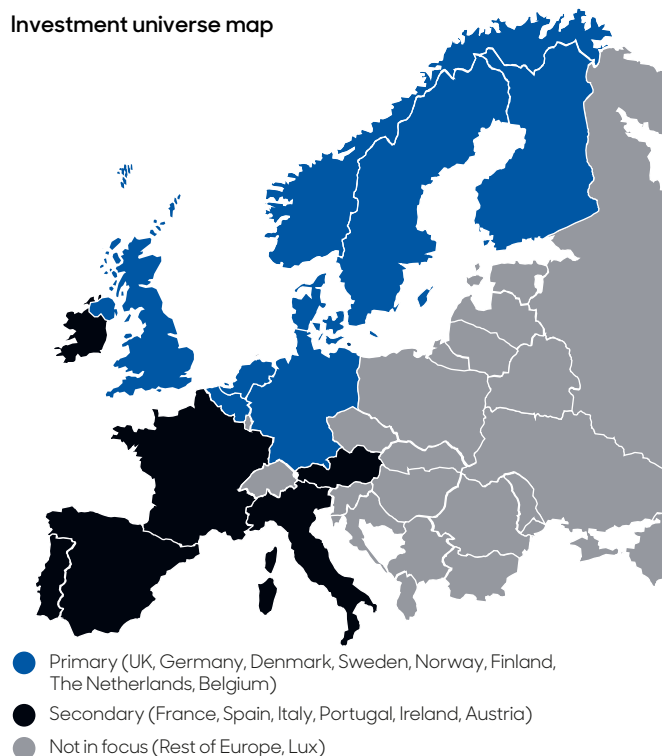
<sup>A</sup>FX rate for uncalled capital as at quarter end

Key facts	
Investment universe	European Economic Area
Risk profile (INREV 2011)	Opportunistic
Launch	Q2 2016
Expiry	Q2 2023
Fund structure	Luxembourg SCSp SICAV-FIS, close-ended with finite life
Mandate type	Discretionary
Target Fund Size (GAV)	€600 million
Return target <sup>A</sup>	>12% pa
Target income distribution <sup>A</sup>	NA
Minimum investment	€10 million
Currency	EUR and USD
Currency hedging	For Class A the Partnership will seek to fully hedge all principal equity that is exposed to non-USD risk
NAV reporting frequency	Quarterly
External asset valuation	Semi-annually
Reporting standard	Lux GAAP

<sup>A</sup> Target returns are offered as strategic goals and are not referenced to past performance. There can be no guarantee targets will be achieved.

Fund codes	
International Securities	LU1608622038
Identification Number (ISIN)	LU1608622202
Legal Entity Identifier (LEI)	222100YRXKCWJ1GPPZ44
Org. number	13455
RCS Luxembourg	B 205.551
FATCA Classification	IGA1-DC (Sponsored investment entity)
FATCA Sponsoring Entity	Aberdeen Standard Investments Luxembourg S.A.
Global Intermediary Identification Number (GIIN) – Sponsoring Entity	MVNN3A.00000.SP.442
GIIN – Fund	MVNN3A.00084.SF.442

#### Investment universe map



Liquidity profile	
Redemption mechanism	Redemptions are not permitted.
Lock-in period	Close-ended vehicle with a six year term from the Final Closing with potential to extend for 24 months with approval by the Advisory Committee.
Notice period	Not applicable
Redemption period	Not applicable
Redemption price	Not applicable
Cap mechanism (Mandatory)	Not applicable
Suspension redemption	Not applicable
Liquidity buffer	Not applicable

The liquidity risk of the portfolio in normal market conditions is considered to be high on the basis that real estate assets are relatively illiquid. For more information see the Fund documentation.

# Performance summary

## Performance

The return for Q2 2022 was -4.7% (Q1 -0.6%) for Class A and -12.5% (Q1 -3.1%) for Class B shares respectively (NAV performance). For both share classes, market performance was brought into negative territory by a negative movement in external property valuations, operating costs and interest expense at property and fund level as well as a decline in the SEK vs. EUR. For Class A, the effect of currency hedging was again positive for this quarter, contributing 7.9%-points. In general, the J-curve shaped returns are to some degree as could be expected during the construction phase as the value uplift from the development projects are expected to gradually materialise as the projects approach the completion phase or exit phase.

The Fund performs semi-annual external valuations as at mid-year and year-end. For Q1 and Q3 the Fund will apply the latest year-end valuation and then add incurred capital expenditures since the last valuation.

## Net Asset Value

The Net Asset Value (NAV) is the value of all assets of the Company less liabilities to creditors (including provisions for such liabilities) determined in accordance with the Association of Investment Companies' valuation guidelines and in accordance with applicable accounting standards.

## NAV table (€)

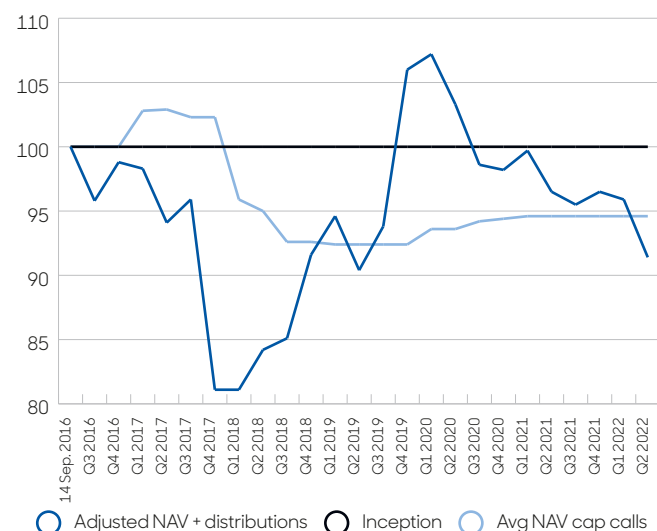
	Q2 2022 Class A	Q2 2022 Class B	Q1 2022 Class A	Q1 2022 Class B	Q4 2021 Class A	Q4 2021 Class B	Inception Class A <sup>i</sup>	Inception Class B <sup>ii</sup>
NAV (Lux GAAP)	228,702,869	13,271,023	239,880,228	15,178,391	241,405,841	15,665,741	17,780,940	4,123,592
Lux GAAP NAV per share	8.13	7.89	8.53	9.02	8.58	9.31	8.89	10.00
Number of shares	28,124,514	1,681,900	28,124,514	1,681,900	28,124,514	1,681,900	2,000,000	412,359

<sup>i</sup> 14 Sep 2016 <sup>ii</sup> 17 Jul 2017

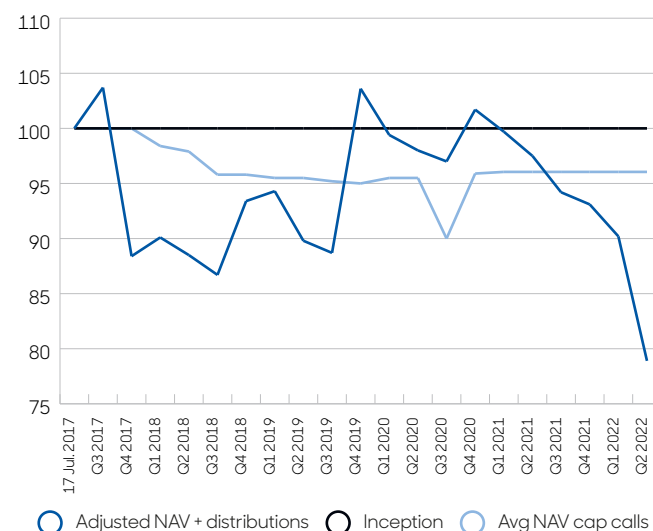
## Fund level returns (%)

	Q2 2022 Class A	Q2 2022 Class B	Q1 2022 Class A	Q1 2022 Class B	Q4 2021 Class A	Q4 2021 Class B	Acc. since inc. Class A	Acc. since inc. Class B	Annualised since inc. Class A	Annualised since inc. Class B
Total return, NAV	-4.7	-12.5	-0.6	-3.1	1.1	-1.2	-3.5	-2.5	-0.7	-0.6
Target return	3.0	3.0	3.0	3.0	3.0	3.0	NM	NM	NM	NM
Relative to target	-7.7	-15.5	-3.6	-6.1	-4.4	-6.6	NM	NM	NM	NM

## Indexed NAV development Class A (EUR) (Since inception to Q2 2022, including distributions) (%)



## Indexed NAV development Class B (EUR) (Since inception to Q2 2022, including distributions) (%)



# Investment strategy

## Investment objective

The Partnership believes that there is a compelling rationale for investing in commercial buildings located in the major cities of the European Economic Area that can be transformed into higher value residential uses.

This opportunity is driven by existing residential shortages in the major cities that are being exaggerated by rapid urban population growth and limited prospective residential supply additions. Concurrently, we observe an excess of obsolete commercial space in these cities, illustrated by a high vacancy rate of offices and underutilised sites upon which many commercial buildings have historically been developed.

## Strategy

The Partnership has a focused strategy to exploit the value difference between the existing use and the prospective residential value. It seeks capital gains on the basis of rezoning (to residential), optimising the design and use of the sites, developing the residential and, ultimately, selling the properties.

During the Investment Period, the Fund secured a high conviction portfolio of 15 development projects across a range of European countries.

## Asset categorisation

The portfolio is divided into the following four categories measured on future risks, expected returns and development in certain areas. This categorisation is used in the daily management of the portfolio, and also as a guide to the future strategy of the Fund.

Asset manage – long-term hold				
SP <sup>a</sup> 2022	Q1 2022	Q2 2022	Q3 2022	Q4 2022
0%	0%	0%	0%	0%

Immediate sale				
SP <sup>a</sup> 2022	Q1 2022	Q2 2022	Q3 2022	Q4 2022
0%	19%	17%	0%	0%

<sup>a</sup> SP refers to the Strategic Plan.

Long-term hold				
SP <sup>a</sup> 2022	Q1 2022	Q2 2022	Q3 2022	Q4 2022
0%	0%	0%	0%	0%

Asset manage – short-term hold				
SP <sup>a</sup> 2022	Q1 2022	Q2 2022	Q3 2022	Q4 2022
100%	81%	83%	0%	0%

### Asset manage – long-term hold

- Manufacture of long-term hold assets
- Adding value to core assets

### Immediate sale

- Assets no longer fulfilling a strategic or tactical role in the portfolio
- Sale possible now at a price which realises the value of unexploited opportunities
- Planned disposals for current calendar year

### Long-term hold (10 years +)

- Held regardless of market environment or potential short-term relative performance
- Focus on quality
- Durable income
- Potential for growth

### Asset manage – short-term hold

- Tactical, value-added strategy for assets not to be held in the long-term
- Assets requiring asset management prior to sale



# Risk limits and investment guidelines

During the Investment Period, the Partnership will invest in real estate in accordance with the following Investment Restrictions:

- No investment in real estate located outside the member states of the European Economic Area
- No more than 50% of the total capital commitments may be invested in any one single country
- No more than 20% of the total capital commitments may be invested in any single real estate asset
- At least 40% of the total capital commitments shall be invested in office space converted or to be converted into residential property

At the end of the Investment Period, the Partnership shall be invested in at least ten real estate investments and in at least four different countries.

Risk type	Risk limits (IMA) <sup>A</sup>	Current position – 30/06/22	Breach (Y/N)	
INREV style	Opportunistic (INREV 2011)	Opportunistic (INREV 2011)	N	
Geographic	100% Inside European Economic Area Max. 50% of Total Capital Commitments in one single country At least 4 countries after Investment Period	UK <sup>B</sup> Germany Sweden Denmark Finland	23% 0% 42% 25% 16%	N
Sector	Min 40% of TCC in Office	Office Industrial Other (of TCC)	37% 14% 56%	N
Currency risk exposure	The Partnership will seek to fully hedge all principal equity that is exposed to non-USD risk	EUR DKK SEK GBP USD (Class A hedged)	20% 11% 46% 24% 0%	N
Single asset exposure	Max. 20% of TCC in single asset	La Tour	19%	N
Development	100% developments	100% developments		N
Ownership/title	No guidelines or restrictions	Weighted ownership	99.4%	N
Indirect	No guidelines or restrictions	0%		N
Leverage (fund level)	Max 60% of GAV	45.5%		N
Leverage (asset level)	Max 65% of GAV	Pyynikki Beach	67%	N
Interest rates	No guidelines or restrictions	NA		N
Variable interest rates	No guidelines or restrictions	NA		N
Debt rollover next 2 yrs	No guidelines or restrictions	NA		N
Derivatives	Derivatives can only be used for hedging purposes	Principal equity is hedged against currency fluctuations (Class A)		N
Liquidity buffer	No minimum restrictions	-		N
Cash and money market instruments	No guidelines or restrictions	€73.4m		N
Limitation to transfer of share(s)/unit(s)	Investors may transfer their shares subject to the approval of the General Partner	-		NA
Valuation frequency	Semi-annually	Last valuation Q2 2022 <sup>B</sup>		N
Independency of Valuer	External valuers reviewed every 3 years	Cushman & Wakefield <sup>B</sup>		NA

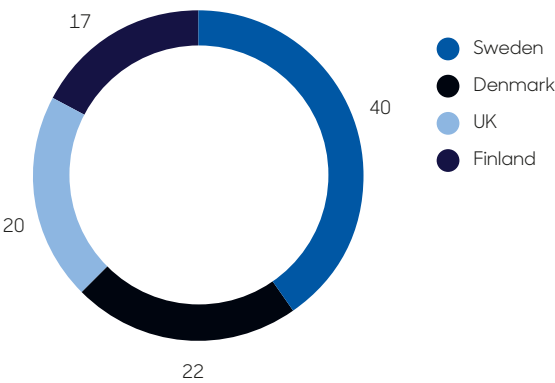
<sup>A</sup> The IMA controls are static restrictions, legally binding, strategic in nature.

<sup>B</sup> The Fund uses external valuations for Q2 and Q4, whereas for Q1 and Q3 the Fund applies the latest valuation and then adds incurred capital expenditures since the valuation.

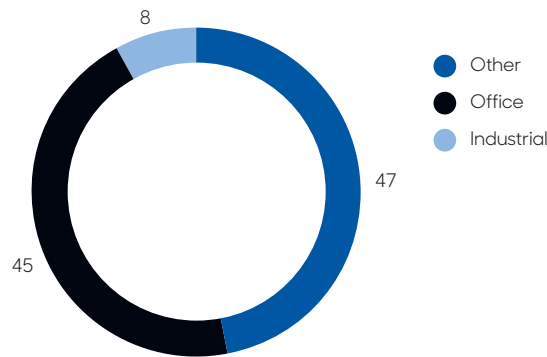
<sup>C</sup> The UK was within the EEA at the time of investment.

# Portfolio allocation

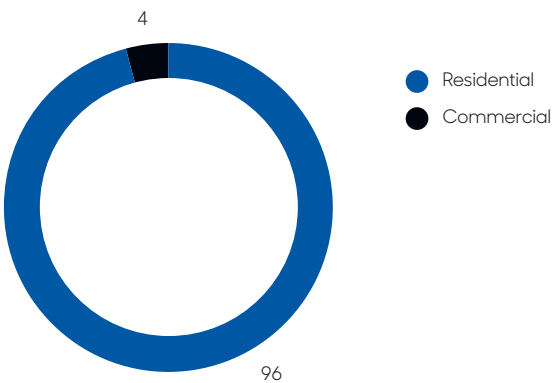
Current geographic allocation (%)



Current sector allocation (%)



Expected sector allocation post conversion (%)



Totals may not always sum due to rounding.

# Property portfolio overview

Following the disposal of Burgstrasse in Q2 2021, the Beach Terraces and Halbergareal projects were fully sold out during Q1 2022. Accordingly, the Fund has twelve live projects. Horisonten and the Paper Tower are 93% and 80% sold, respectively.

## Key portfolio data – as is

	Q2 2022	Q1 2022	Q4 2021	Q4 2020	Q4 2019	Q4 2018	Q4 2017
Number of properties/projects	12	12	14	15	13	10	5
Existing space (sqm)	48,523	48,523	52,822	61,660	61,660	49,050	15,750
Value of investment property (€m) <sup>A</sup>	449.6	447.2	435.7	455.0	343.0	167.9	63.9

<sup>A</sup> The Fund uses external valuations for Q2 and Q4, whereas for Q1 and Q3 the Fund applies the latest valuation and then adds incurred capital expenditures since the valuation.

## Key portfolio data – planned development (base case)

	Q2 2022	Q1 2022	Q4 2021	Q4 2020	Q4 2019	Q4 2018	Q4 2017
Fully developed (sqm)	180,026	180,026	254,469	264,255	237,975	142,574	64,070
Number of residential units	2,792	2,792	3,397	3,557	3,009	2,221	1,101
Total estimated gross development costs (€m)	807.9	811.4	841.7	912.7	748.6	523.4	250.3



Pyyrikki Beach, Tampere, Finland

## Closed projects – Key property data

Property	City	Country	Sector	Acq. date	Project type	Project size (NLA sqm)	# of units	Resi segment	Est. delivery date	Current status
The Smith Centre	Henley-on-Thames	UK	Office	27 Sep 2016	Conversion	6,875	95	Senior	2023	Project planning
Bath Press Site	Bath	UK	Industrial	9 May 2017	Rebuild	21,284	279	Mixed	2023–2024	Project planning
Nobelvägen	Malmö	Sweden	Office	24 Oct 2017	Rebuild	13,445	357	Micro-living	2023	Construction
Horisonten	Aalborg	Denmark	Industrial	24 Nov 2017	Rebuild	14,383	168	Condos	2020	Completed
Pyynikki Beach	Tampere	Finland	Office	28 Feb 2018	Conversion	32,180	264	Mixed	2020–2023	Construction
Kista – Jylland	Stockholm	Sweden	Other	7 Mar 2018	Rebuild	11,920	357	Micro-living	2022	Completed
Kista – Anholt	Stockholm	Sweden	Other	7 Mar 2018	Rebuild	14,344	182	Micro-living	2023	Construction
The Paper Tower	Silkeborg	Denmark	Other	30 Apr 2018	Build	11,912	87	Condos	2020	Completed
Transformer-verkstan	Stockholm	Sweden	Office	1 Oct 2018	Conversion	7,221	140	Micro-living	2021	Completed
Craighouse	Edinburgh	UK	Office	1 Aug 2019	Conversion	17,430	106	Condos	2022–2023	Construction
Music House	Helsinki	Finland	Other	10 Oct 2019	Build	6,374	105	Micro-living	2022	Construction
La Tour	Århus	Denmark	Other	25 Feb 2020	Build	22,658	652	Micro-living	2023	Construction
<b>Total</b>						<b>180,026</b>	<b>2,792</b>			

Totals may not always sum due to rounding.

# Acquisitions and disposals

The investment period of the Fund expired in June 2020, hence no new acquisitions during the quarter.

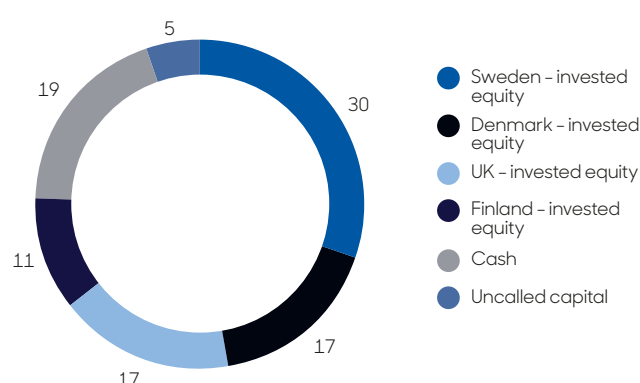
Following subdued interest for condominium sales in the first half of 2020, because of the outbreak of Covid-19, sales activity saw a pickup in momentum in the second half of the year in Denmark, Finland and the UK. This momentum has continued in 2021 and early 2022 with the Beach Terraces project now fully sold. Subsequent to the war in Ukraine, rising interest rates and declining consumer confidence, condo sales activity has slowed somewhat, although the Fund has continued to see activity across its projects.

The Fund continued to explore potential interest from buyers and/ or forward funding partners on some of the remaining projects. These processes may lead to some type of exit/de-risking over the next few quarters.

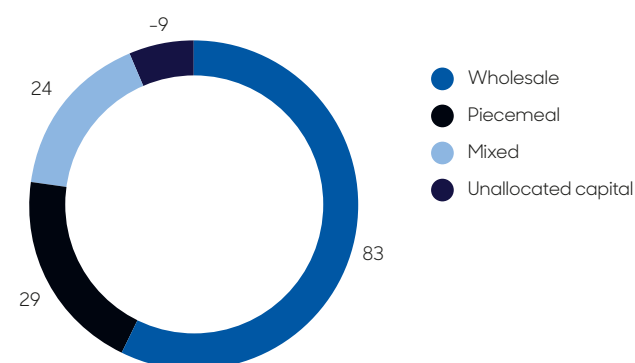
## Closed investments

	Q2 2022	Q1 2022	Q4 2021	Q4 2020	Q4 2019	Q4 2018	Q4 2017
Total number of properties	12	12	14	15	13	10	5
Acquisition cost property (incl. depreciated trans. costs) (€m)	171.6	176.0	181.4	205.2	173.5	121.0	61.0
Capex (€m)	289.7	258.9	237.0	200.2	129.2	43.3	3.8
<b>Total investments</b>	<b>461.3</b>	<b>434.9</b>	<b>418.4</b>	<b>405.4</b>	<b>302.7</b>	<b>164.3</b>	<b>64.8</b>
Unrealised gains/losses	-6.6	17.5	14.7	59.9	46.7	10.1	-0.9
- Transaction costs (incl. depreciation) (€m)	-5.1	-5.2	-5.5	-10.3	-6.4	-4.2	-3.6
<b>Book value investments (LuxGAAP)</b>	<b>449.6</b>	<b>447.2</b>	<b>427.6</b>	<b>455.0</b>	<b>343.0</b>	<b>170.3</b>	<b>60.3</b>

Closed and signed acquisitions – geographic allocation  
(invested equity as % of total committed equity)



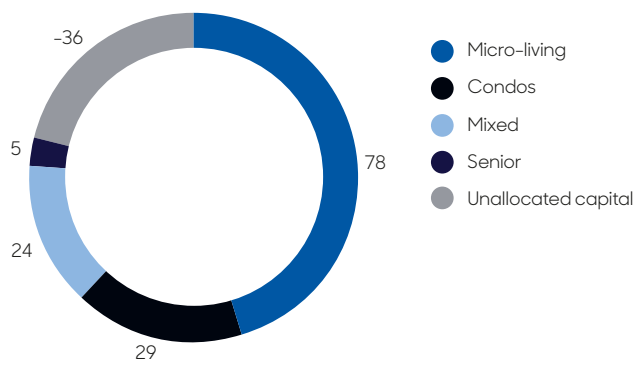
Exit strategy allocation  
(peak equity as % of total committed equity)



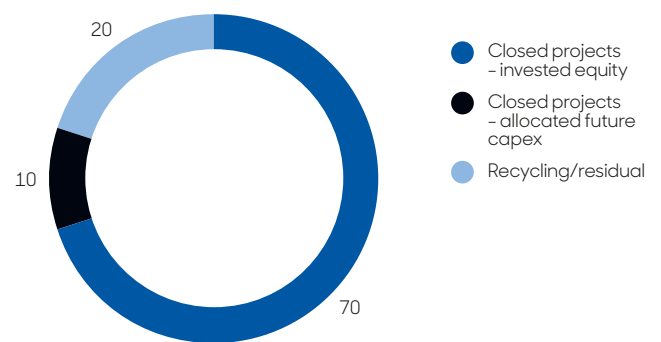
Totals may not always sum due to rounding.



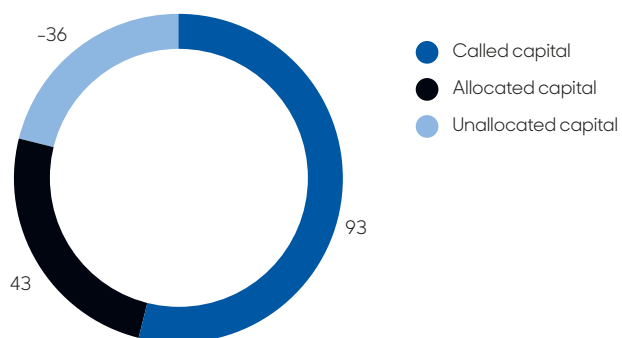
**Resi segment allocation**  
(peak equity as % of total committed equity)



**Closed and signed acquisitions – capital allocation**  
(equity as % of total committed equity)



**Capital allocation**  
(%)



Totals may not always sum due to rounding.

# Development projects

## Closed acquisitions



### The Smith Centre, Henley-on-Thames, UK

#### Project Description

The Smith Centre in Henley-on-Thames is located in a desirable and affluent residential area on the edge of an area of outstanding natural beauty. The 3,200 sqm property consists of a five building office campus. The plan is to improve the scheme which currently has permitted development rights.

#### Current activities / comment

The Fund exchanged a conditional contract on 23 December 2021 for the sale of the site for a value of £13.3m. This sale is subject to receipt of a satisfactory planning consent which the purchaser will have until 31 December 2022 to deliver, provided they have submitted a planning application within 8 months of exchange of contracts. There is an option to extend for a further 5 months to May 2023, if, additional criteria is met by the proposed purchaser. There is an ultimate longstop date of February 2024 in the contract to permit the purchaser to appeal a negative planning decision. The purchaser is making good progress with the planning application and aiming to submit within the timescales in the sales agreement.

The buildings on site have been stripped out to mitigate the impact of empty rates. The purchaser has asked for additional time to submit the planning application and we have agreed to extend this to 15 August 2022 under the contract. They have also highlighted that the local authority are in consultation to impose a CIL charge in the borough and this will impact on financial viability of the development. This needs to be discussed further.



### Bath Press Site, Bath, UK

#### Project Description

Bath Press Site is a redundant industrial building and roadside trade counter in Lower Bristol Road, Bath. The 5.44 acre site has an existing planning consent for redevelopment to 244 dwellings of various types, a provision of 15,984 sq. ft (GIA) of flexible employment space, residential parking in a basement and associated amenity space.

#### Current activities / comment

The BTR planning application has been delayed further; it was due to go to Planning Committee in April and again due to Council Resource issues, it is now anticipated that it will go to the August or September Committee. Current feedback from the Planning Officer suggests that subject to a positive response from highways (which is currently anticipated); the Officer is likely to recommend the application for approval. The BTR operator remains committed to acquiring the majority of the development on a forward funding basis. If the Fund proceeds with the deal, the remaining 30 townhouses would be disposed off on the open market. Values have increased over the period, however, as noted previously inflationary pressures remain. Obtaining the alternative Planning Consent will afford the Fund the option to sell the site to a wider market (both BTR or Private for sale under the implemented consent) or carry on and complete the development funding with the current or an alternative BTR operator.

## Closed acquisitions



### Nobelvägen, Malmö, Sweden

#### Project Description

Nobelvägen in Malmö, Sweden is a former combined office and industrial building. The plan is to develop the property to a scheme of 344 micro-living rental apartments across 13,445 sqm. The scheme will target young people – students as well as young professionals. The project will include common areas, including study/co-working space, café/deli, reception and a gym.

#### Current activities / comment

Main construction contract was signed in May 2021 with a completion date target of December 2022. Full basement construction and ground floor are completed in building A, B, C and D and modules are fully installed on site. Building E will arrive ultimo August. The groundwork is ready for the Emerald, a 175 sqm greenhouse in the courtyard, which also will be assembled in August.

A development loan facility was signed with SBAB in June 2021.



### Horisonten, Aalborg, Denmark

#### Project Description

Horisonten is a development project of a silo tower located on Lindholm Brygge, a former industrial area next to Limfjorden in Aalborg, the fourth largest city and third largest municipality in Denmark. The zoning plan for the land plot provides 17,200 sqm building rights with planning consent for redevelopment to residential. The 66 meter tall building is purely residential with the exception of the ground floor, in total 167 condo units across 22 floors.

#### Current activities / comment

NCC completed the project one month ahead of time and 58 new owners moved into their apartments on 1 May 2020. The property has now been managed by the owners' association for 26 months.

Total sales had reached 93% at end of Q2 2022 with 154 sold units and 13 units yet to be sold.

The remaining Heimdal Loan was fully repaid in Q2 2022.

## Closed acquisitions



### Pyynikki Beach, Tampere, Finland

#### Project Description

Pyynikki Beach is a historical industrial area in Tampere, the second largest city and economic area in Finland. The plan has been to convert the old buildings into residential and commercial use and to use the existing building rights to create 12,000 sqm of residential and 10,000 sqm of commercial premises. In parallel, the plan is to create approximately 12,000 sqm additional residential building right.

#### Current activities / comment

Construction work for housing phase 1A was completed in Q3 2020. Six apartments of 68 are still on sale. Construction of housing phase 1B was started in June 2021 and will be accomplished Q4 2022. The selling of the phase 1B is ongoing with 58% closed and 3% reservations.

Renovation of the parking facilities was completed in Q4 2020. The courtyard above the garage will be finished step by step during summer 2022 together with the commercial areas. The commercial part includes 146 studio apartments and outsourced common services like grocery, cafe, micro brewery, restaurant, gym and sauna. The first part of UNITY Tampere (62 studios), café and gym opened in May, and the rest of the services will open in September. The restaurant is the only still vacant space.

The original target about additional building rights located on top of the building was abandoned because of resistance from neighbours and the museum. Other targets, such as the increased share of apartment building rights as well as the replacement of a listed building, have been attained. The revised zoning plan was approved in December 2020. The zoning contract with the city was made on 8 March 2022 and the City Council approved the zoning plan on 11 April 2022. There were no complaints and the new plan became valid 31 May 2022 with 11,210 sqm.



### Kista – Jylland, Stockholm, Sweden

#### Project Description

Kista, Jylland in Stockholm, Sweden is a micro-living scheme in Kista, the foremost ICT cluster in Northern Europe and a vibrant student hub in Stockholm. The project has an approved local zoning plan and comprises 11,900sqm and 357 high quality micro-living apartments targeting students. The project will include common areas, including study/co-working space, café/deli, reception and a gym.

#### Current activities / comment

Building permit for Jylland was approved in August 2019, but later appealed by neighbours. The scheme retains the full support of the planners and the building permit was fully approved in Q1 2021.

The scheme was handed over in mid-December 2021 and final elements of the interior design were in the process of being installed. Last client install items was delivered in Q1 2022. Main service providers (facility management, Wi-Fi, security, laundry) are in place as well.

The property also experienced a water damage in one of the buildings in mid June as a water fitting broke. Works are currently ongoing in order to dry the affected units.

During the quarter, a pro-longed process for finalising rent negotiations with the Swedish Tenants Association finally came to an end and UNITY's management team has started the letting process. The first tenants will move in on 15 August 2022.



## Closed acquisitions



### Kista - Anholt, Stockholm, Sweden

#### Project Description

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Kista, Anholt in Stockholm, Sweden is a micro-living scheme in Kista, the foremost ICT cluster in Northern Europe and a vibrant student hub in Stockholm. The project has an approved local zoning plan and comprises 14,344 sqm and 182 high quality micro-living apartments targeting graduates and young professionals. The project will include common areas, including study/co-working space, café/deli, reception and a gym.

#### Current activities / comment

A planning application for Anholt was obtained in February 2020 and an amended version was just submitted Q2 2022.

Temporary pavilions are still occupied by our future ground floor tenant, the pre school. The formal 'Start Permit' was issued in Q2 2021 and excavation and piling works then commenced. The buildings are now fully erected with completed roofs. Ongoing fitout and technical installations are ongoing before FFE, which will be installed in Q1 2023. Practical completion is expected in June 2023.

The construction loan is at a progressed of being secured with loan disbursement subject to obtaining approval of the two-year fund extension option.



### The Paper Tower, Silkeborg, Denmark

#### Project Description

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The Paper Tower project in Silkeborg, Denmark is part of Papirfabrikken, a former paper factory that has been converted to a mixed use scheme with retail, office and residential. The land plot was taken over in Q2 2018, post the amended rezoning and approval of the building permit. The high rise of approximately 11,400 sqm is spread across 23 floors and 87 apartments.

#### Current activities / comment

The development project was completed in November 2020 and has been fully operational and managed by the owners' association for 20 months.

Sales reached 80% at the end of Q2 2022 with 72 units sold. 15 units remain unsold.

The remaining construction loan with Danske Bank was fully repaid in Q1 2021 and then refinanced during Q2 2021. The remaining Heimdal loan was fully repaid in Q2 2022.



## Closed acquisitions



### Transformerverkstaden, Stockholm, Sweden

#### Project Description

Transformerverkstaden in Stockholm, Sweden is a micro-living scheme in Hammarby Sjöstad, a former industrial area that was transformed over the past 30 years. The business plan has been to convert the former industrial building (office use at acquisition) into micro-living serviced loft apartments and co-working space, whilst maintaining the industrial feeling and appearance. The 7,200 sqm scheme provides 140 living units, co-working space and meeting rooms plus common areas such as café/deli, reception, gym and laundry as well as garden and roof terrace.

#### Current activities / comment

Building permit for the improved scheme was issued in May 2019. The main build contract was signed in December 2019 with start on site on 1 January 2020.

Following a delay in the agreed handover date the contractor presented an updated programme with a revised completion date in mid Oct 2021. Opening took place on 4 November 2021, following an intense period with a fit-out works.

The UNITY management team has experienced strong operational performance during H1 2022 and in particular in Q2 2022, performance picked up strongly to close to 100% occupancy in certain periods.

A refinancing of the asset is also ongoing with completion expected during Q3 2022.



### Craighouse Edinburgh, UK

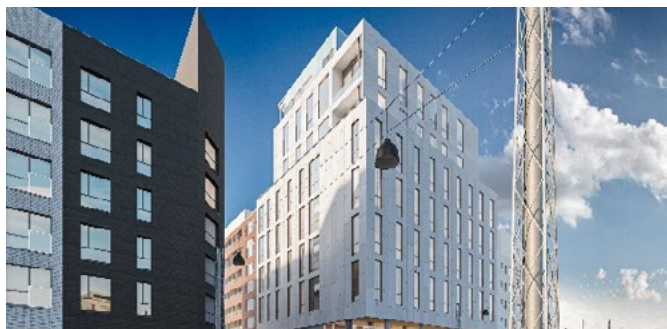
#### Project Description

Creation of 106 units in the parkland grounds of a former University campus. 55 apartments are being delivered by repurposing the main Grade A listed buildings on site with a further 14 apartments being new build. In addition, 35 new build townhouses will be built and two further houses are created by converting existing buildings.

#### Current activities / comment

The townhouses of King Craig and West Craig remain on programme to complete during 2022, Kings Craig completions are due to complete over the next few months with all units sold or reserved. Six out of ten units in West Craig have been sold or reserved. North Craig is due to complete first half of 2023. Marketing of the remaining units in West Craig is underway and the marketing of North Craig has begun. Construction on New Craig continues with phased completions and phases are being released on a controlled basis to manage stock and maintain pricing. In total 50% of the forty four units on New Craig have been sold or reserved. Whilst values have continued to increase and premiums are being paid above projections, costs being incurred on current project and projected cost to complete the remaining development blocks has had an impact. These increases are being driven by inflation affecting materials as well as labour shortages and time related delays. Works has begun on Queens Craig and Old Craig and white boxing is due to complete within the next month. The development loan facility expires at the end of July 2022, and is in the process of being extended to the start of 2024.

## Closed acquisitions



### Music House, Helsinki, Finland

#### Project Description

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Music House is a new build scheme in Helsinki and the purchase closed on 10 October 2019. It is located in Jätkäsaari, a rapidly growing and improving regeneration area, close to the city centre and next to the main new area for international corporate businesses.

The site has been acquired with the benefit of a planning consent to provide 105 serviced apartments. There is also a co-working and meeting room centre providing around 100 desks as well as meeting rooms.

#### Current activities / comment

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The main build contract as well as a development financing facility were signed in September 2020. Works on site started in May 2020. The contractor had challenges on the building site caused by lack of management and resources and COVID-19 increased the pressure. This caused a delay but challenges are solved now and completion date is 4 July 2022.

Main service providers (facility management, Wi-Fi, security, laundry) are now in place and the sales and marketing website is now up and running.



### La Tour, Aarhus, Denmark

#### Project Description

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La Tour is a residential micro-living project situated 2.7 kilometers from Aarhus CBD. La Tour will be a modern student housing and city living destination with easy accessibility to central Aarhus, universities, the enlarged hospital and major office hubs nearby, available at relatively affordable prices. The project will comprise 23,176 sqm across up to 28 storeys and 652 micro-living units and service areas.

#### Current activities / comment

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The acquisition closed on 25 February 2020. The cleared site has planning consent, design is finalised and a turnkey contract was signed in May 2020.

The building permit was approved and groundworks started up in Q3 2020. During the quarter the building reached level 28, its full height and the topping party was celebrated in late June. Completion is planned for May Q2 2023. FF&E installations are expected to start in December 2022.

## Closed disposals



### Burgstrasse, Frankfurt, Germany

#### Project Description

Burgstrasse in Frankfurt consists of 8,838 sqm above ground and was let to a range of tenants on mainly short-term leases, providing a net initial yield of 6.8% at the time of acquisition. The strategy is to convert the existing office space into residential condominiums whereas the existing commercial units on the ground floor will be retained as retail.

#### Current activities / comment

Building permit was obtained in February 2019 with a total lettable area of 9,786 sqm, consisting of 8,056 sqm residential and 1,730 sqm commercial. Demolition works started in summer 2018 and completed in June 2021.

The contract with the general contractor was signed in February 2019 on a fixed price contract.

The lease contract with the organic supermarket Alnatura on the ground floor (921 sqm) has been prolonged for 20 years.

Disposal of the project as a forward funding for €79.8 million took place on 6 November 2019. The first three instalments amounting to €49 million were used to repay development and intercompany loans as of December 2019 and further excess cash was up streamed to the Fund.

Project completed as of 30 June 2021, at which date the disposal also closed, producing an estimated IRR of 28%.



### Halbergareal, Ludwigshafen, Germany

#### Project Description

Re-zoning of former industrial site (25,000 sqm) in Ludwigshafen to mainly residential usage, split the site into four land parcels and exit the plots to developers. The existing five year old office building (3,740 sqm letting area) to be fitted out/refurbished, let and sold. The various production halls on the plot will be demolished.

#### Current activities / comment

Acquisition of the land plot was closed on 17 January 2019. The rezoning process started in February 2019 and was approved in December 2020.

Block A (office) fully let from April 2021 to the city of Ludwigshafen on a 10 year contract. The office building has been sold and closing took place on 1 April 2021.

Block B has been signed on 10 December 2021, closing took place as of 1 March 2022.

Block C was sold in February 2021, closing took place on 7 July 2021. Block E was sold in Q4 2019 and block D was sold in Q1 2020. Closing of both blocks took place in November 2021.

Phase II of the development loan was drawn during Q3 2020 and paid back in July 2021.

Rezoning granted in Q2 2021 leading to closing of block C in July 2021 and blocks D and E in November 2021.

Demolition works finished in July 2022, disposal of decontamination ongoing until end of 2022.

## Closed disposals



### The Beach Terraces, Copenhagen, Denmark

#### Project Description

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The Beach Terraces is a beachfront and former harbour area land plot in Køge, one of Copenhagen's largest suburbs. The 0.2 ha site has planning consent for redevelopment to residential and consists of 5,740 sqm / 54 residential units across seven stories.

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#### Current activities / comment

Practical completion on 1 Mar 2020 when 22 buyers moved into the finished building, corresponding to approximately 41% of GDV.

Total sales reached 100% at end of Q3 2021 with all 54 units sold, of which one is a conditional sale that had yet to close at year-end 2021.

The remaining construction loan with Danske Bank was fully repaid in Q1 2021 and then refinanced during Q2 2021.

The remaining Heimdal loan was fully repaid in Q2 2022.



# Investment capital and investor base

## Capital committed and capital base

The Fund has total committed capital of €270.1 million. €252.3 million is committed in Class A, the US dollar-denominated share class, and €17.8 million in Class B, the euro-denominated share class.

The Fund has, so far, called €250.6 million (unchanged from the first quarter), leaving €19.5 million of uncalled commitments. The capital is allocated to finance the remaining 12 projects in the UK, Germany, Denmark, Sweden and Finland. The latest capital call was number 21 and was drawn in January 2021 to fund ongoing project and construction costs across the portfolio.

## Overview of committed capital

Closing	Date	Number of new investors	Class A Amount committed (USD)	Class B Amount committed (EUR) <sup>A</sup>
1st closing	13 Jun 2016	1	158,300,000	
2nd closing	26 Aug 2016	-	43,000,000	
3rd closing	15 Nov 2016	-	18,200,000	
4th closing	18 Apr 2017	-	20,000,000	
Final closing	12 Jun 2017	2	50,060,000	17,752,337
<b>Total</b>		<b>3</b>	<b>289,560,000</b>	
<b>Total EUR equivalent</b>				<b>270,067,595</b>

<sup>A</sup> FX rate as at 30 June 2022 for undrawn capital; otherwise FX rate at drawdown dates.

Totals may not always sum due to rounding.



Music House, Helsinki, Finland



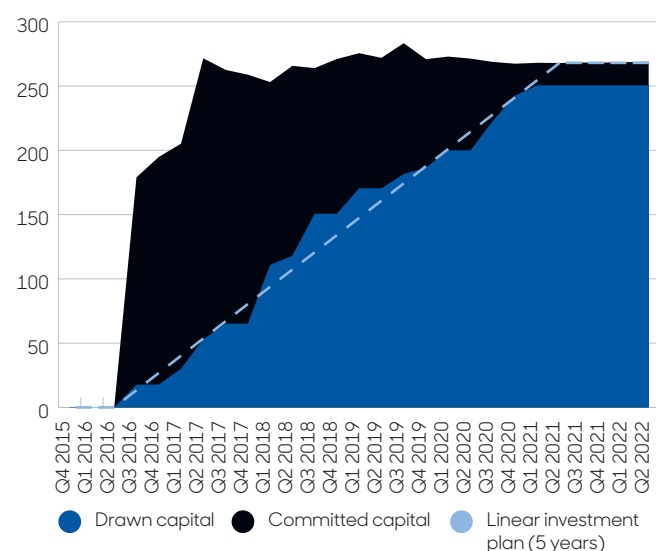
## Capital calls

Closing	Date	Number of new investors	Class A amount called (USD)	Class B amount called (EUR) <sup>A</sup>	Total amount called (EUR) <sup>A</sup>
1st capital call	14 Sep 2016	1	20,000,000		17,780,939
2nd capital call	21 Feb 2017	1	13,000,000		12,338,063
3rd capital call	3 May 2017	1	25,000,000		22,918,959
4th capital call	17 Jul 2017	3	9,259,050	4,123,592	12,195,295
5th capital call	9 Jan 2018	3	15,214,000	883,640	13,636,365
6th capital call	23 Feb 2018	3	22,900,000	1,290,000	19,911,671
7th capital call	16 Mar 2018	3	14,000,000	774,000	12,174,651
8th capital call	20 Apr 2018	3	8,100,000	451,500	7,048,397
9th capital call	20 Jul 2018	3	4,400,000	258,000	4,016,273
10th capital call	3 Sep 2018	3	6,360,000	387,000	5,857,261
11th capital call	21 Sep 2018	3	25,060,000	1,484,000	22,792,618
12th capital call	9 Jan 2019	3	14,933,000	903,000	13,875,805
13th capital call	25 Feb 2019	3	6,360,000	387,000	5,991,756
14th capital call	17 Jul 2019	3	11,610,000	710,000	11,052,524
15th capital call	27 Nov 2019	3	5,160,000	320,000	5,011,121
16th capital call	18 Mar 2020	3	13,580,000	840,000	13,375,192
17th capital call	2 Jul 2020	3	10,540,000	650,000	10,036,829
18th capital call	28 Aug 2020	3	14,310,000	840,000	12,867,226
19th capital call	3 Nov 2020	3	9,890,000	580,000	9,011,017
20th capital call	3 Dec 2020	3	12,160,000	710,000	10,709,995
21st capital call	11 Jan 2021	3	9,090,000	520,000	8,001,174
<b>Total</b>		<b>3</b>	<b>270,926,050</b>	<b>16,111,732</b>	<b>250,603,131</b>

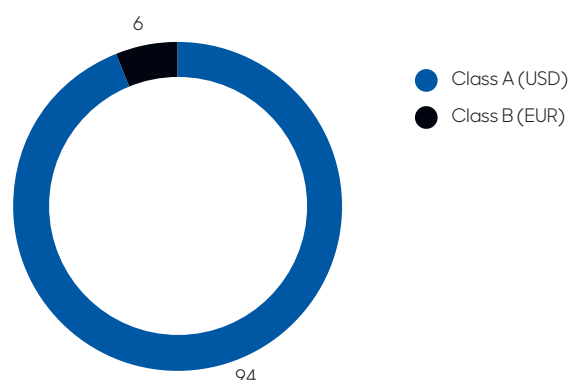
<sup>A</sup> FX rate as at specific drawdown dates

Totals may not always sum due to rounding.

## Drawn capital and total committed capital (€m)



## Allocation of share classes (%)



Totals may not always sum due to rounding.

# Currency overview

## Currency strategy and hedging

The Fund is denominated in euros. For Class A, the principal equity in US dollars is hedged against currency fluctuations, typically with foreign exchange forwards. The Fund provides quarterly information on the currency exposure for total assets and NAV.

## Currency hedging

	Q2 2022				
	GBP	EUR	DKK	SEK	Total (€)
FX exposure (LOC)	44,583,328	43,733,566	173,318,862	1,064,569,567	218,200,684
Hedging in place (LOC)	44,561,036	43,711,700	173,232,202	1,064,037,282	218,091,584
MTM value (€)	1,514,258	1,073,255	489,576	3,840,135	6,917,224
Hedging ratio	100 %	100 %	100 %	100 %	100 %

FX rates	Q2 2022	Q1 2022	Q4 2021	Q4 2020	Q4 2019	Q4 2018	Q4 2017
GBP/EUR	1.1617	1.1833	1.1910	1.1172	1.1802	1.1141	1.1265
USD/EUR	0.9565	0.8988	0.8794	0.8173	0.8909	0.8748	0.8328
DKK/EUR	0.1345	0.1344	0.1345	0.1343	0.1338	0.1340	0.1343
SEK/EUR	0.0933	0.0964	0.0971	0.0995	0.0952	0.0987	0.1017

FX rates in %	Q2 2022	Q1 2022	Q4 2021	Q4 2020	2019	2018	2017
GBP/EUR	-1.8	-0.6	2.4	1.3	5.9	-1.1	-3.8
USD/EUR	6.4	2.2	1.9	-4.2	1.8	5.0	-12.2
DKK/EUR	0.0	0.0	0.0	0.0	-0.1	-0.2	-0.1
SEK/EUR	-3.2	-0.7	-1.5	4.4	-3.5	-3.0	NM

Currency exposure	NAV Q2 2022
	(EUR '000s)
GBP	31,290
EUR	108,012
USD	-
SEK	51,634
DKK	51,038
<b>Total</b>	<b>241,974</b>

# Financing and financial risk management

## Financing

The Fund puts a strong focus on having the most appropriate financing structure in place at all times, and benefits from abrdn's longstanding relationships with key banks across the European region.

The Fund has, so far, secured partial or full debt financing on 12 of its current projects: the Smith Centre, Horisonten, the Beach Terraces, the Paper Tower, Halbergareal, Pyynikki Beach, Transformerverkstaden, Craighouse, Nobelvägen, Kista – Jylland, La Tour and Music House.

The remaining three projects are currently 100% equity financed, but the Fund plans to secure construction financing on Kista – Anholt by September 2022. In parallel, some loan extensions and refinancings in Finland, Sweden and the UK are ongoing as loans expire or completed assets move from the construction phase to operating, cash flow generating properties.

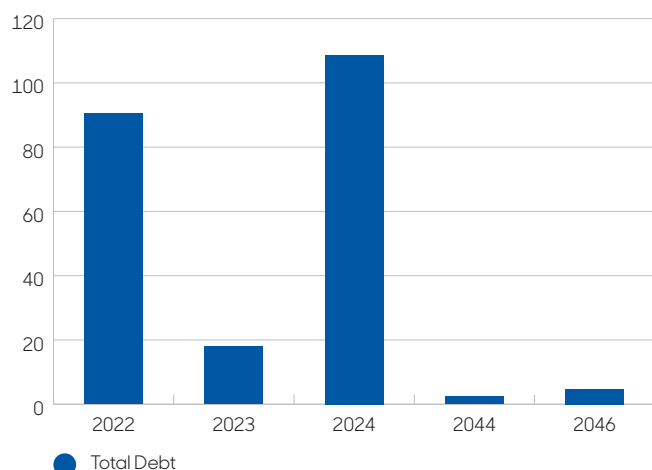
## Cash position

The Fund had a net cash balance of €73.4 million in cash as at 30 June 2022 versus €90.1 million as at 31 March 2022.

## Loans and interest rates

As a result of the short-term nature of the investments, the financing needs to be as flexible as possible. Depending on the development plans, we are considering two phases of financing: the first tranche is to refinance part of the equity for the acquisition of the asset and the second phase is to partly finance capital expenditure during the construction phase. There may occur partial loan repayments already during the construction phase, depending on the disposal progress of the units and/or the phased nature of some of the development projects.

## Debt maturity profile (€m)



## Key financing data

	Q2 2022	Q1 2022	Q4 2021
Total loans	248.8	247.1	224.4
Leverage of the AIF <sup>A</sup> :			
Gross exposure – Fund level (%)	287	275	278
Gross exposure – Maximum level (%)	500	500	500
Commitment exposure – Fund level (%)	199	188	190
Commitment exposure – Maximum level (%)	250	250	250
Cash and cash equivalents	73.4	90.1	97.9
Loan to Value (Fund level) (%) <sup>B</sup>	45.5	43.9	39.6
Loan to Value (Net debt) (%) <sup>C</sup>	32.1	27.9	22.3
Loan to Value (Property level) (%) <sup>D</sup>	55.3	55.2	51.6
Hedge ratio (% of loan hedged)	-	-	-
Average maturity of swaps (yrs)	-	-	-
Weighted average debt maturity (yrs)	1.16	1.18	1.45
Financing cost incl. margins (%)	4.54	4.54	4.42
Average loan margin (bps) <sup>E</sup>	406	411	415

<sup>A</sup> Based on figures one quarter in arrears.

<sup>B</sup> The main LTV for the fund is calculated as total loans divided by total assets.

<sup>C</sup> LTV is calculated as total loans minus net cash (cash and cash equivalents minus mark-to-market of swaps) divided by the property portfolio value.

<sup>D</sup> LTV is calculated as total loans divided by the property portfolio value (excluding other intangible assets).

<sup>E</sup> Bond coupon considered equivalent to margin. In addition, the Fund pays arrangement fees and commitment fees accrue on most of its debt facilities.



Halbergareal, Ludwigshafen, Germany

# Consolidated statement of operations – unaudited

(Amounts – EUR '000)	Q2 2022	Q1 2022
<b>Income</b>		
Rental income	1,264,665	398,065
Recharges operating expenses to tenants	435,204	37,453
Other income	221,387	36,404
<b>Total operating income</b>	<b>1,921,257</b>	<b>471,921</b>
<b>Direct Property Related Expenses</b>		
Property operating expenses	(2,093,156)	(1,047,267)
Property maintenance and repair	(154,077)	(61,822)
Property taxes	(222,681)	(167,477)
Marketing fees	(1,156,189)	(669,415)
Staff expenses	(751,868)	(396,947)
Amortisation of transaction costs	(429,634)	(299,251)
<b>Fund Expenses</b>		
Custodian fees	(80,268)	(39,570)
Audit fees	(253,410)	(92,780)
Accounting fees	(236,113)	(128,466)
Legal fees	(384,591)	(179,756)
Valuation fees	(17,341)	(12,254)
Tax advisory fees	(11,983)	(5,256)
Professional fees	(280,649)	(99,789)
Administrative and other expenses	(164,872)	(33,935)
Fund Management Fees	(1,855,183)	(946,870)
<b>Total operating expenses</b>	<b>(8,092,015)</b>	<b>(4,180,854)</b>
<b>Operating result before gains/losses arising from the real estate investments</b>	<b>(6,170,759)</b>	<b>(3,708,933)</b>
Net unrealised gain / (loss) on property investments	(27,737,536)	(3,687,491)
Net realised gain / (loss) on property investments	1,467,308	2,543,461
<b>Net capital gains /(losses) from investment properties</b>	<b>(26,270,228)</b>	<b>(1,144,031)</b>
<b>Operating (loss)/profit</b>	<b>(32,440,987)</b>	<b>(4,852,963)</b>
Other financial income	(6,104)	39,318
Interest expense on loans and swap	(6,602,352)	(3,640,971)
Other financial expenses	(852,224)	(462,443)
Net unrealised gain / (loss) on foreign exchanges	1,456,231	296,315
Net realised gain / (loss) on foreign exchanges	(5,145,781)	(902,105)
Net unrealised gain / (loss) on derivative financial instruments	9,290,805	6,085,109
Net realised gain / (loss) on derivative financial instruments	15,660,342	(100,764)
<b>Net financial gain / (loss)</b>	<b>13,800,917</b>	<b>1,314,459</b>
<b>Gain/(Loss) before tax</b>	<b>(18,640,070)</b>	<b>(3,538,504)</b>
Taxes (current and deferred)	3,625,198	1,543,391
<b>Gain/(loss) for the year</b>	<b>(15,014,872)</b>	<b>(1,995,113)</b>
<i>Gain/(loss) for the quarter attributable to:</i>		
Non-controlling interest (PL)	(582,230)	(177,801)
Owners of the Fund	(14,432,643)	(1,817,312)
	<b>(15,014,872)</b>	<b>(1,995,113)</b>

Totals may not always sum due to rounding.



# Consolidated statement of operations – unaudited

(Amounts – EUR '000)	Year ended December 31, 2021*
Rental income	669,032
Property operating expenses	(7,214,523)
<b>Net rental income</b>	<b>(6,545,491)</b>
Management fees	(3,880,871)
Professional fees	(2,817,241)
Amortisation of acquisition costs	0
Amortisation of formation costs	(21,638)
Subscription tax	(26,224)
Directors' fees	(23,136)
Employee benefit expenses	(688,501)
Other expenses	(498,430)
Other income	583,679
<b>Operating profit/(loss) before fair value adjustments on real estate investments</b>	<b>(13,917,853)</b>
Unrealised (losses)/gains on real estate investments	(38,475,231)
Revenue from the sale of real estate investments	52,309,194
<b>Operating profit</b>	<b>(83,890)</b>
Interest income and similar income	48,961
Interest expenses and other financial charges	(12,983,735)
Net realised gains on derivative financial instruments	13,406,802
Net unrealised losses on derivative financial instruments	3,833,633
Net foreign exchange gain	1,078,727
<b>Profit before income tax</b>	<b>5,300,498</b>
Income tax (expense)/ benefit	(3,339,885)
<b>Profit/(loss) for the period/ year</b>	<b>1,960,613</b>
<i>Attributable to:</i>	
Partners of the Partnership	(2,955,660)
Minority interests	4,916,273

\* Please note the 2021 statement of operations is shown separately from 2022 as the itemisation of information was adjusted from Q1 2022 onwards.

Totals may not always sum due to rounding.

# Consolidated statement of net assets – unaudited

(Amounts – EUR '000)	30 June 2022	31 March 2022
<b>Assets</b>		
<i>Non-current assets</i>		
Real estate investments, at appraised market value	449,558,251	447,172,427
Financial instruments, at appraised market value	6,917,224	3,711,527
Other assets – Intangible assets	1,211,357	1,365,368
Deferred tax assets	(0)	(0)
<i>Current assets</i>		
Accounts receivable	6,086,902	6,404,363
Cash and cash equivalents	73,403,508	90,057,379
Restricted cash	3,398,972	7,952,197
Other assets	5,862,214	6,598,876
<b>Total assets</b>	<b>546,438,428</b>	<b>563,262,138</b>
<b>Liabilities</b>		
<i>Liabilities due after more than one year</i>		
Long-term loans payable to banks	96,041,930	172,083,126
Bonds Payable	75,000,000	75,000,000
Deferred tax liability	3,929,935	6,000,583
<i>Liabilities due within one year</i>		
Bank loans maturing within 1 year	77,728,250	–
Deposits received	48,783	54,762
Interest accruals and payable	1,405,506	1,541,687
Accounts payable and accrued expenses	43,902,815	43,244,134
Tax payables	6,956,185	8,655,434
Deferred Income	–	37,418
<b>Total liabilities</b>	<b>305,013,405</b>	<b>306,617,144</b>
<b>Net assets</b>	<b>241,425,023</b>	<b>256,644,994</b>
<b>Net assets attributable to:</b>		
Non-controlling interest	(548,870)	1,586,374
Owners of the Fund		
Capital contributions	250,603,146	250,603,146
Retained earnings	6,350,102	6,350,102
Conversion reserves	(546,712)	(77,316)
Results for the period	(14,432,643)	(1,817,312)
<b>Net assets</b>	<b>241,425,023</b>	<b>256,644,994</b>
<b>Total equity and liabilities</b>	<b>546,438,428</b>	<b>563,262,138</b>

Totals may not always sum due to rounding.

# Consolidated statement of cash flows – unaudited

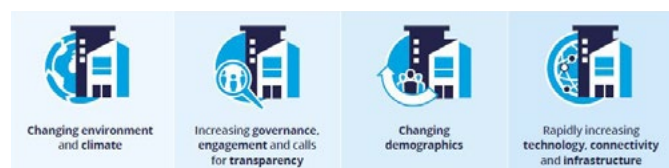
(Amounts – EUR '000)	Q2 2022	Q1 2022	2021 Full year
<b>Cash flows from operating activities</b>			
Profit/(loss) before income tax (as per trading net asset value)	(18,115,584)	(3,157,268)	5,300,498
<i>Adjustments for:</i>			
Unrealised loss on real estate investments	27,737,536	3,687,491	38,475,231
Realised gains on sale of real estate investments	(1,524,103)	(2,604,339)	(52,309,194)
Net unrealised gains on derivative financial instruments	(9,290,806)	(6,085,109)	(3,833,633)
Interest expenses on bonds and borrowings	6,821,370	4,038,794	11,543,764
Interest income and similar income	(12,008)	(34,133)	(48,961)
Amortisation of formation costs	0	0	21,638
Amortisation of debt issue costs	521,845	295,893	1,169,953
Changes in working capital	15,626,930	9,737,552	(7,006,104)
Currency movements	3,570,927	(296,315)	409,983
<b>Cash used in operating activities</b>	<b>25,336,107</b>	<b>5,582,566</b>	<b>(6,276,825)</b>
Income tax paid	(2,817,915)	(518,038)	(2,697,426)
Interest paid on bonds and borrowings	(6,190,982)	(3,631,938)	(11,122,068)
Interests and similar income received	12,008	34,133	48,961
<b>Net cash used in operating activities</b>	<b>16,339,218</b>	<b>1,466,723</b>	<b>(20,047,358)</b>
<b>Cash flows from investing activities</b>			
Capital expenditure on real estate investments	(88,270,312)	(38,200,137)	(166,481,277)
Proceeds from sale of real estate investments	23,617,035	11,761,415	129,744,544
Net cash outflow on acquisition of subsidiaries			
Net cash inflow on disposal of interests in joint operations	626,695	626,695	7,332,507
Repayment of loan granted to minority shareholders	0	0	1,825,000
<b>Net cash used in investing activities</b>	<b>(64,026,582)</b>	<b>(25,812,027)</b>	<b>(27,579,226)</b>
<b>Cash flows from financing activities</b>			
Proceeds from capital contributions	0	0	8,001,174
Proceeds from borrowings, net of debt issue costs	44,503,277	24,140,244	88,808,625
Proceeds from bonds issued, net of issuance costs	0	0	73,655,500
Repayment of borrowings	(16,769,670)	(467,774)	(49,901,827)
Capital transactions with minority interests	(1,730,000)	0	(755,000)
Distributions paid to minority interests	0	0	(5,903,943)
<b>Net cash generated from financing activities</b>	<b>26,003,607</b>	<b>23,672,470</b>	<b>113,904,529</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(21,683,757)</b>	<b>(672,834)</b>	<b>66,277,945</b>
Cash and cash equivalents at beginning of the year	98,592,992	98,592,992	32,412,676
Effect of exchange rates on cash and cash equivalents	(106,755)	89,418	(97,629)
<b>Cash and cash equivalents at the end of the year</b>	<b>76,802,480</b>	<b>98,009,576</b>	<b>98,592,992</b>

# Environmental, Social and Governance issues

## Company approach

abrden believes the management of environmental, social and governance (ESG) issues is a fundamental part of our business. As a real estate investment and asset manager we recognise that, while real estate investment provides valuable economic benefits and returns for clients, it has, by its nature, an environmental and societal impact.

We believe there are four forces affecting global real estate investment.



The four forces naturally encompass a diverse range of topics and concerns. But we have translated and codified these into our investment approach – in support of investment strategies, underwriting decisions and asset management approach – while also aligning them to the UN Sustainable Development Goals. We believe that these forces will shape the future and so, in turn, shape our long-term approach by guiding how we prioritise ESG factors at the fund and asset level.

We make use of the expertise within the ESG real estate team and are actively engaged with a number of ESG leadership efforts, ensuring we stay at the forefront of market developments.

## Fund facts – Energy Performance Certificates (EPCs)

Properties = 15

EPCs = 8 (100%)<sup>1</sup>

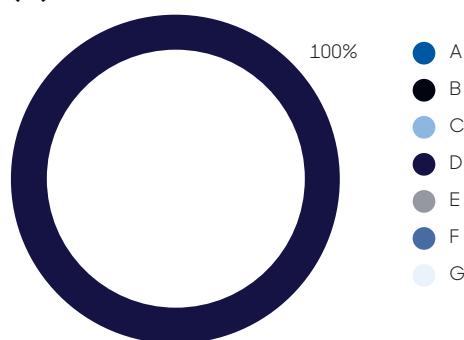
Total number of EPCs at A – C = 0 (0%)

Fund target once developed

Total Number of EPCs at A – C = 100%

<sup>1</sup> Remaining properties are land.

## Energy performance certificates score 2020 (%)



# Risk management

## Risk management function

abrdn is committed to building and continuously improving a sound and effective system of internal control and a Risk Management framework that is embedded within its operations; this is the first line of defence.

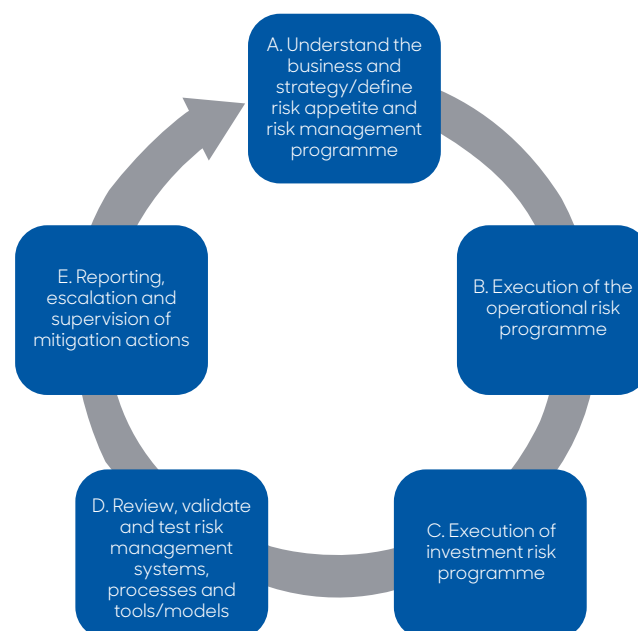
abrdn's Risk Division, as the second line of defence, exists to support management in the identification and mitigation of risks and provides independent monitoring of the business. The Risk Division includes Corporate & Financial Risk, Regulatory & Conduct, Compliance & Operational Risk and Investment Risk. The team is headed by the abrdn's Chief Risk Officer, who reports to the Chief Executive Officer. The Risk Division achieves its objective through embedding the Risk Management framework throughout the organisation using abrdn's operational Risk Management system (SHIELD).

abrdn's Internal Audit Department is independent of the Risk Division and reports to the CEO and the Chair of the Audit Committee of the Board of Directors. The Internal Audit Department is responsible for providing an independent assessment of the control environment; it is abrdn's third line of defence.

abrdn's corporate governance structure is supported by several committees that bring together subject matter experts from different departments, to assist abrdn's Board of Directors, its subsidiaries and the funds to fulfil their roles and responsibilities. The Risk Division is represented on all committees, with the exception of those that deal with investment recommendations. The specific goals and guidelines on the functioning of those committees are described in their respective terms of reference.

## Risk management programme

The risk management programme is typically aligned with the valuation and reporting cycle of the funds and can be summarised broadly in five steps, see the chart below.



The first step of the programme allows the risk teams to identify, assess and understand the inherent risks of the fund and to define the risk management programme. This step allows the Risk Management team to understand potential changes in the risk profile of the fund and to focus and adapt their level of analysis to the most significant risks. The operational risk programme execution allows the risk team to assess whether the internal controls mitigating those risks are sufficient and effective. Further, the execution of the investment risk programme relates to the identification and measurement of risks embedded in the investments of the fund. The review of the risk management systems allows the risk teams to confirm whether the processes are operating as described in the procedures and whether they are still fit for purpose.

The review of the risk management systems, processes and tools results of the independent risk assessment are escalated to the relevant committees and boards which are responsible for overseeing how the business implements the necessary mitigating actions.

## Description of the process of identifying, assessing and managing risks

- **Market risk:** Is a form of risk that impacts a fund's investments (Investment risk), which is primarily identified, assessed and managed through abrdn's investment management processes. The Risk Management team is provided with the investment plans and observes how they are challenged by the Investment Committee (IC). The team also raises any concerns where it identifies issues that have not been raised by the members of the IC. The information collected helps the Risk Management team to have a holistic view of the idiosyncratic risks of the property multi-manager portfolios. The market risk is further monitored through the computation of loan to value ratios and the level of leverage by both the gross and net approach. The leverage is calculated by converting each derivative instrument into the equivalent position in the underlying assets, on a NAV basis. The market risk linked to concentration risk is mitigated through investment restrictions set according to the basic principle of diversification. The Risk Management team uses other techniques such as scenario analysis, concentration analysis, tenant, lease and debt risk indicators, to complement techniques deployed.
- **Liquidity risk:** abrdn has a Liquidity Risk Management Policy in place applicable to the funds and set out in accordance with its overall Risk Management Process, relative to the size, scope and complexity of the funds. Liquidity risk is monitored on both the asset and liability sides. To monitor asset liquidity risk, abrdn employs a number of methods specific to the underlying assets in order to measure the level of liquidity. In all cases, the approach is to reference the actual holdings of the fund against the market evidence. A Pricing Committee is responsible for the review and monitoring of asset pricing, in addition to the approval of pricing methodologies and fair value approaches. abrdn has implemented a Pricing Policy which details the operational responsibilities for pricing assets. On the liability side, investor transactions and, beyond this, investor behaviour are the main drivers of liquidity within each open-ended fund. In this context, the articles and prospectuses contain certain key provisions or limits which provide protection to the funds and ultimately investors, in situations where liquidity might become a concern. In addition, the Risk Management team performs periodic analysis in respect of the shareholder concentration and transactional behaviour. Other source of liquidity risk is debt. The Risk Management team performs, if applicable, periodic analysis of debt maturity alongside, current and potential covenant breaches under certain stressed conditions. Any particular concerns noted are escalated to the relevant Committee and Boards, if material.
- **Credit and counterparty risk:** abrdn has a Global Counterparty Credit Risk Policy (GCCP) in place to ensure appropriate management of credit risk and standards for approving trading counterparties. The policy is reviewed and approved by the Credit Committee on at least an annual basis. Transactions involving derivatives are only entered with approved counterparties and if the terms of the bilateral agreements and collateral terms are in line with abrdn Derivative Management Policy. This process is overseen by the Derivative Management Committee.
- **Legal risk:** All key contractual arrangements entered into by the funds are reviewed by the internal Legal team and, where required, by external legal counsel. If these contracts refer to delegation arrangements, where applicable, there is an operating memorandum defining information flows between the parties, frequency of services and deadlines, a clear attribution of rights and responsibilities of each party and, when applicable, the key performance indicators to measure performance. Any litigation issues are also handled by the internal Legal team, which would provide updates to the Risk Management team on any existing litigation, status of the litigation and the extent of any impact to the funds.
- **Tax risk:** The internal Tax team is supported by external tax consultants to advise on tax structuring, transactions and tax reporting.
- **Operational risk:** The Operational Risk Management Framework ensures that the operational risks taken and their contribution to the overall risk profile are accurately measured on the basis of sound and reliable data and that the risk measurement arrangements, processes and techniques are adequately documented. The identification, measurement, management and monitoring of operational risk within abrdn are achieved through the use of the Operational Risk Management Framework System, SHIELD. This system provides the following key Risk Management Modules:
  - **Events & Losses:** This module serves as a historical loss database, in which any operational failures, loss and damage experience (Events) will be recorded. The records include professional liability damages. The process for recording, investigation and mitigation of Events aims to ensure that they are not repeated.
  - **Issues and Actions:** The issues and actions module provides a standardised mechanism for identifying, prioritising, classifying, escalating and reporting internal audit findings and other on-going/unresolved matters impacting abrdn from a risk or regulatory perspective (Issues).



- **Risk and Control Self-Assessment (RCSA):** The RCSA process is to ensure key risks and key controls are identified and managed effectively in order to satisfy, where applicable, Internal Capital Adequacy (ICAAP) requirements. The RCSA also provides a systematic and holistic means of identifying risk and control gaps that could impact business or process objectives which are agreed by Senior Management to complete.

## Measuring risk

Where appropriate abrdn applies the following measurements for each fund:

- **Leverage:** Measures the effect of gearing a fund's expected performance by allowing a fund to gain greater exposure to underlying investment opportunities (gains and losses). The higher the leverage the greater the risk (potential loss).
- **Stress test and scenario analysis:** Captures how much the current portfolio will make or lose if certain market conditions occur.
- **Concentration:** By grouping the portfolio through various different exposures: manager, country, sector, issuer, asset etc., to identify where concentration risk exists.
- **Underlying investment manager capability:** Review of several indicators such as key persons leaving, delays on and transparency of financial information to identify manager risk.
- **Asset net income leakage:** Captures underlying investment revenue risk arising from underlying investment portfolio characteristics; type of leases or changes in the local rental market prices, tenant concentration and characteristics of debt at underlying investment (fund) level.
- **Alignment of asset/liability liquidity terms:** Assesses whether the fund has enough liquidity to cover its short term liabilities and whether the maturity of the remaining fund liabilities are aligned with the asset liquidity profile.
- **Activities to measure operational risks:** Inquires to legal and tax teams on litigations and tax developments impacting the funds. Assessments of investor satisfaction. Understanding processes related to NAV production, investing and monitoring of investments. Analysis of SHIELD Events and Issues, etc.

For some of the risk measurements above, the funds' Boards of Directors and Risk Management team will determine and set specific risk limits, which will be appropriate for each fund.

## Escalation and reporting

abrdn recognises timely and adequate reporting measures as well as escalation channels to be key components of the control process and management of risk.

The Risk Management team provides regular updates to the Board/Senior Management on the adequacy and effectiveness of the Risk Management Process indicating, where applicable, actual or anticipated deficiencies and the remedial measures.

Risks identified at the level of the funds are reported to the Board of each fund, to the Board of the Manager and to the relevant Committee.

In addition, all issues and events impacting any abrdn entity or the funds are logged in SHIELD, by the relevant area within the prescribed time limits.

# Appendix

## FATCA and CRS notice

### FATCA NOTICE

#### FATCA UPDATE AND CONFIRMATION OF GLOBAL INTERMEDIARY IDENTIFICATION NUMBERS ('GIINs')

This Notice contains important information regarding new US tax regulation requirements which came into effect from 1 July 2014.

#### FATCA BACKGROUND

The Foreign Account Tax Compliance provisions of the United States Hiring Incentives to Restore Employment Act ('FATCA') generally impose a U.S. federal reporting and withholding tax regime on non-US financial institutions with respect to certain U.S. source income (including, among other types of income, dividends and interest) and gross proceeds from the sale or other disposal of property. The rules are designed to require certain U.S. persons' direct and indirect ownership of certain non-US accounts and non-US entities to be reported to the U.S. Internal Revenue Service ('IRS'). A 30% withholding tax regime could apply if there is a failure to provide certain required information and these rules apply to such payments made after 30 June 2014.

#### APPLICABILITY TO ABRDN'S FUNDS

Aberdeen European Residential Opportunities Fund ('The Fund') is domiciled in Luxembourg. Luxembourg has entered into an intergovernmental agreement (IGA) with the IRS to facilitate FATCA compliance. FATCA compliance will be enforced under local tax legislation and reporting rules. The Fund will comply with these rules and has registered on the IRS website to obtain a GIIN.

The relevant FATCA information and GIIN:

### COMMON REPORTING STANDARD (CRS) NOTICE

#### CRS UPDATE

This Notice contains important information regarding OECD tax regulation requirements which came into effect from 1 January 2016.

Jurisdiction	Fund Name	FATCA Classification	Sponsoring Entity	Sponsoring Entity GIIN	Fund GIIN
Luxembourg	Aberdeen European Residential Opportunities Fund	IGA1-DC (Sponsored investment entity)	Aberdeen Standard Investments Luxembourg S.A.	MVNN3A.00000.SP.442	MVNN3A.00084.SF.442

#### CRS BACKGROUND

The Organisation for Economic Co-operation and Development ("OECD") received a mandate from the G8/G20 countries to develop a common reporting standard ("CRS") to achieve a comprehensive and multilateral automatic exchange of information (AEOI) in the future on a global basis. The CRS will require financial institutions to identify financial account holders and establish their tax residence. Financial institutions should then report financial account information relating to certain accounts to the local tax authority, which will thereafter automatically transfer this information to the relevant competent foreign tax authorities on a yearly basis. Shareholders may therefore be reported to the local and other relevant tax authorities under the applicable rules.

A European Council Directive 2014/107/EU as regards mandatory automatic exchange of information in the field of taxation (the "Euro-CRS Directive") has been adopted on 9 December 2014 in order to implement the CRS among the member States of the European Union. In addition, the local tax authorities signing the OECD's multilateral competent authority agreement ("Multilateral Agreement") agreed to automatically exchange information under the CRS.

## **APPLICABILITY TO ABRDN'S FUNDS**

Aberdeen European Residential Opportunities Fund ('The Fund') is domiciled in Luxembourg. Luxembourg is considered an 'Early adopter' CRS jurisdiction, for more information please visit OECD's website. The first exchange of information amongst tax authorities is expected to be applied in 2017 for information related to the year 2016. Accordingly, the Fund would be committed as of 1 January 2016 to run additional due diligence processes on its account holders and to report the identity and tax residence of certain account holders (including certain entities and their controlling persons) to the local tax authorities who will share such information with other relevant tax authorities. The information reported will also include the account balance, income and redemption proceeds. The Fund will comply with these rules and may, in due course, require additional information from investors in order to comply with relevant CRS obligations. Each investor should consult their professional advisors on the possible tax and other consequences with respect to the implementation of the CRS.

## **Data Protection Statement**

We take your privacy seriously and we will only ever collect and use information which is personal to you where it is necessary, fair and lawful to do so. We will collect and use your information only if we are able to satisfy one of the lawful processing conditions set out in the data protection laws.

We may share your information internally, and with third parties acting on our behalf to enable us to provide you with the product, service, or investment, or to meet our legal and regulatory requirements.

The majority of your information is processed in the UK and European Economic Area (EEA). Where your information is being processed outside of the EEA, we take additional steps to ensure that your information is protected to at least an equivalent level as would be applied by UK / EEA data privacy laws.

We take information and system security very seriously and we strive to comply with our obligations at all times. Any personal information which is collected, recorded or used in any way, whether on paper, online or any other media, will have appropriate safeguards applied in line with our data protection obligations.

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