



The Case For Continental European Long Lease Strategies

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Aviva Investors Real Estate

Specialists in real estate secure income investing

- Investing in long lease strategies since mid **1990s**
- Managing over **€4.5 billion** in secure income property assets
- **Multi-award winning** UK long lease fund – one of the first secure income, long lease funds
- **Dedicated long lease real estate team** built over the past 14 years with market leading expertise in fund management, acquisitions, deal sourcing and underwriting
- **Strong Credit Analysis** capabilities with 80 professionals managing over €10bn real estate loans



UK Property
Investment Awards
WINNER 2016



Winner
UK PROPERTY
Aviva Investors

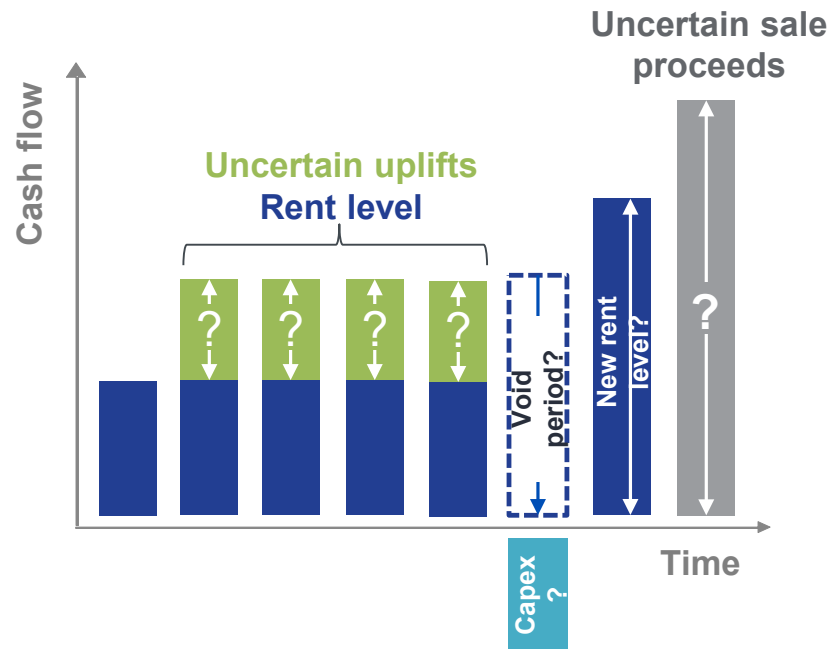


WINNER
Long Income Property
Manager of the Year

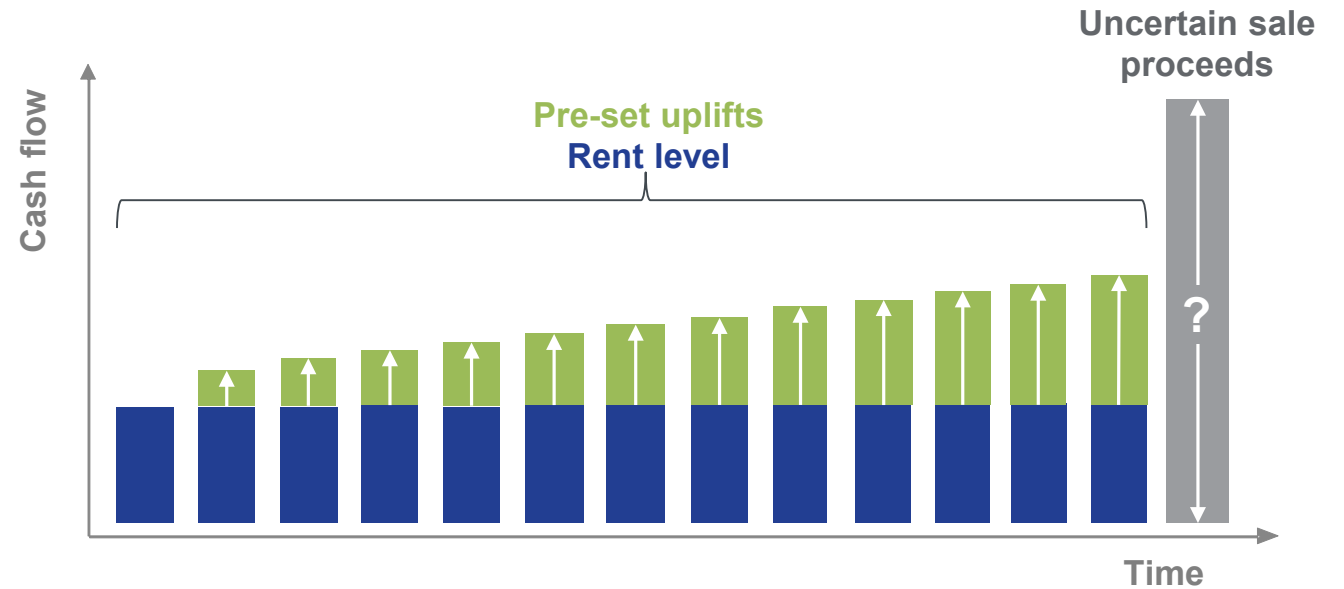
Traditional and Long Lease Property

Comparison of different strategies

Traditional property



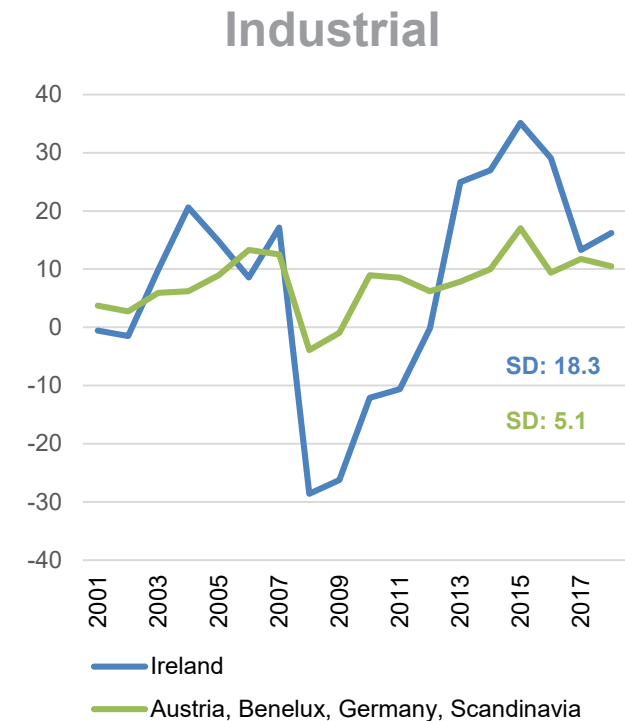
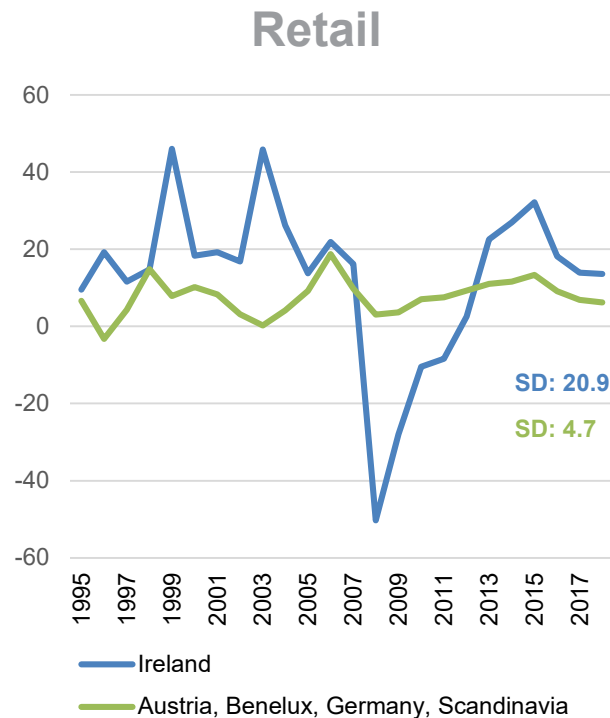
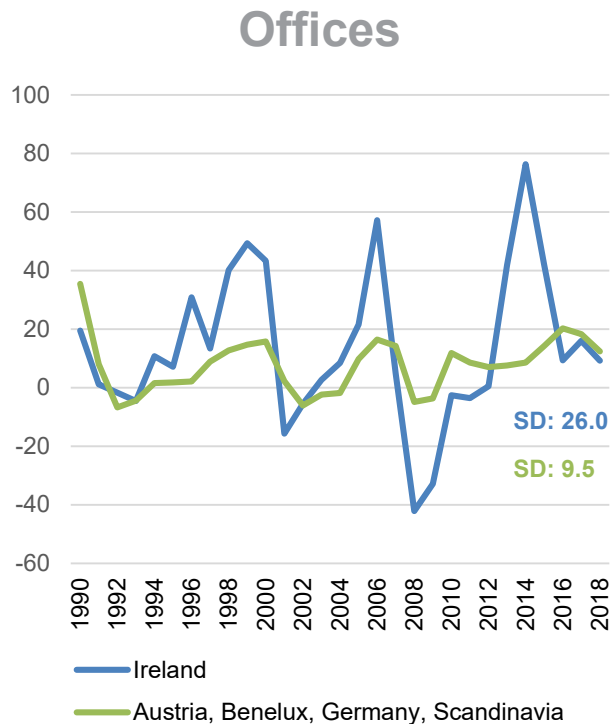
Long Lease property



Long Lease income profiles are more LDI friendly and have more predictable cashflows

Ireland vs Continental Europe

Volatility of returns



Higher volatility for Irish returns in major real estate sectors

Long Lease Real Estate in pension funds' portfolios

A useful addition to diversified portfolios

De-risking property exposure

Long lease real estate:

- A comparatively low risk form of property exposure
- Focus on lease term and quality of tenants
- Imperfect correlation with traditional real estate

Supplementing fixed income holdings

Challenges for defined benefit pension schemes:

- Underfunding
- Low interest rates and QE
- Short supply of index-linked government bonds
- Liabilities linked to Irish inflation

Low correlation between Long Income and traditional asset classes*

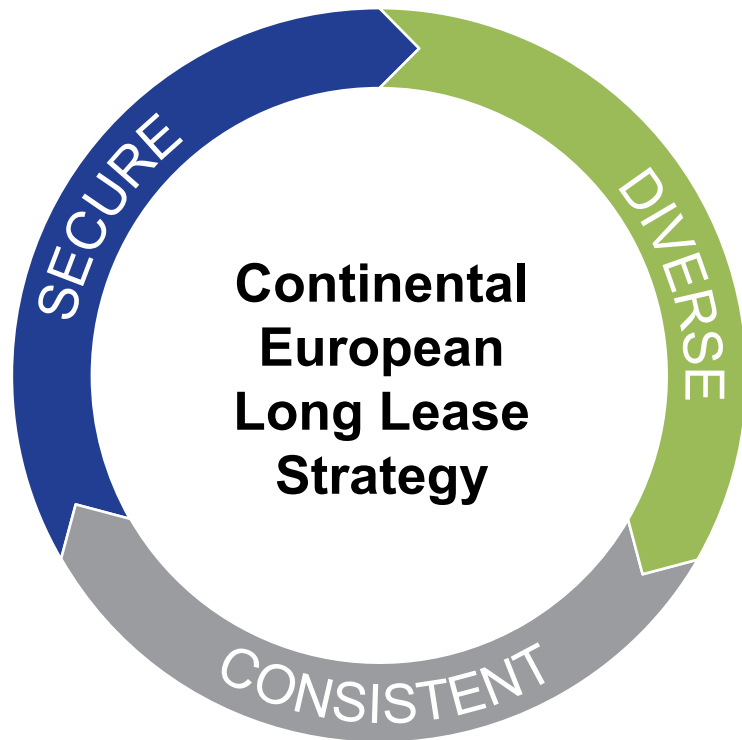
	Bond	Equity	Long Income
Bond	1.00		
Equity	-0.19	1	
Long Income	-0.20	0.41	1

*UK, 2006-2018, quarterly data

Source: Aviva Investors, IPD, Macrobond, Datastream as of October 2018

Continental European Long Lease Strategy

Introducing the strategy



Target return: Net income return 4% - 5% p.a*

Secure long-term cash flows

Lease length: At least 15 years to expiry

Tenants: Public and private with strong covenants

Diversification: Sectors, tenants, and countries

Sectors: Social Infra, Office, Retail, Logistics, Alternative

Countries: Continental Europe; focus on Germany, Austria, Benelux and Scandinavia

Consistent and predictable returns

Assets: Core/core+, stable, income producing assets

Rent reviews: Indexation of rental income

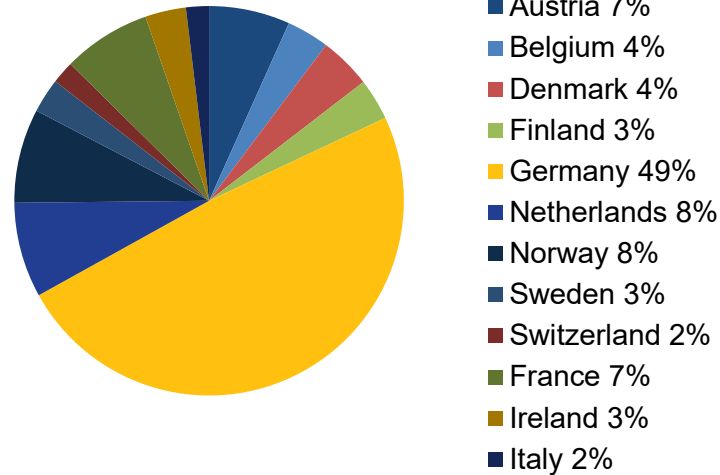
* The target return is not guaranteed

Highly diversified universe of opportunities

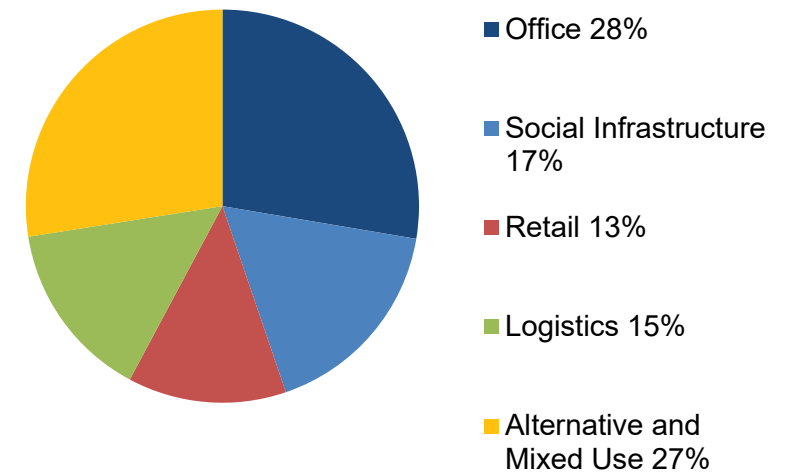
Strong and well diversified deal pipeline



Geographic overview



Sector overview



€6.7bn in deal pipeline over last 12 months

Diversification: Strategic sectors

Focus on locations where people want to live, work, play and learn

Social Infra



Social infrastructure in sustainable locations used by public sector tenants (e.g. schools, universities, kindergartens, retirement homes) offers stability and diversification

Office



Locations that are sought after by long-term occupiers

Retail



Assets benefitting from strong convenience attributes to capitalise on long term structural trends

Logistics



Supply chain / logistics assets that are positioned to benefit from e-commerce and long-term trade flows

Alternatives



Alternative sectors offering yield premium and low correlation with GDP (e.g. leased hotels, student housing, car showroom or parking)

High diversification across asset classes and tenants

Investment examples: Benelux

Office with Laboratory Facilities



Location	Utrecht, Netherlands
Use	Research Facility
Tenant	International Blue Chip Corporate
Covenant	BBB+
Lease length	15 years
Indexation	100% CPI
Avg. CoC return	5.4% p.a.
Purchase Price	€70-75m

- **Rationale:** Danone Innovation Centre is a grade A research and office facility for Danone’s special nutrition business “Nutricia” on a 15 year lease with a 5-year extension option.
- **Building:** Grade A office building with BREEAM “Excellent” certificate. Built in 2013 offering 17,926 sqm including office space, laboratories, conference centre and a restaurant. Option to convert back to 100% office use.
- **Location:** Excellent location within the Utrecht Science Park, which is a “brain hub” around one of Europe’s leading research Universities.



Investment examples: Scandinavia

Social Infrastructure



Location	Kristiansand, Norway
Use	Social Infrastructure / Educational
Tenant	Regional Municipality
Covenant	AA+
Lease length	20 years
Indexation	100% of CPI p.a.
Avg. CoC Return	3.8% p.a.
Purchase Price	€40-45m

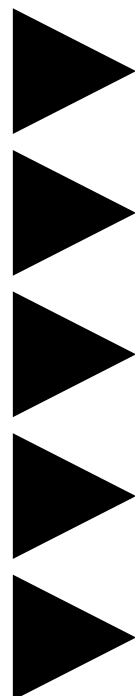
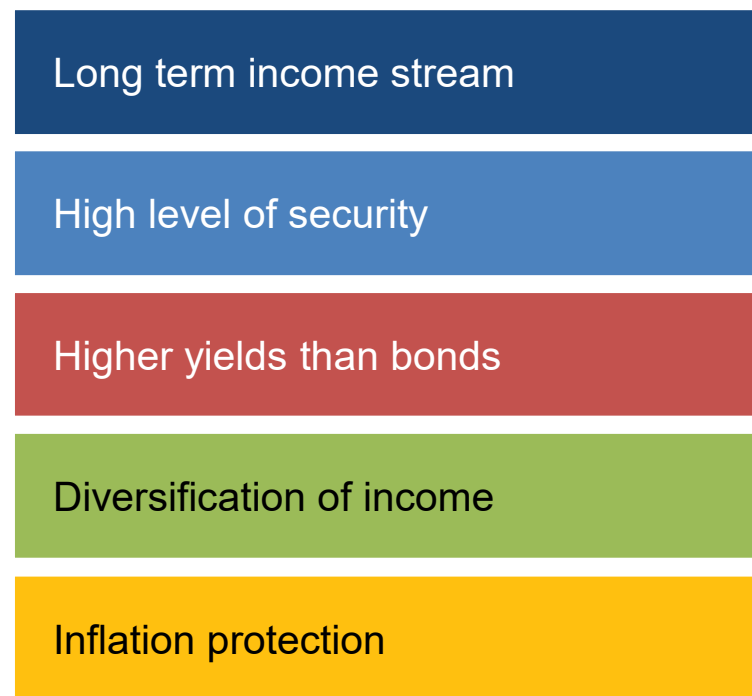
- **Rationale:** Very stable asset in the educational sector on a 20 year lease with a AA+ government tenant offering an additional upside potential of alternative use of the site
- **Building:** Alternative site use (subject to planning) of residential given the site's location within a residential area, providing a strong reversionary story for the Fund exit at the end of the hold period
- **Location:** Excellent location within the City, with the educational institution having been in place for over 50 years. The location is a key strategic educational hub for the municipality



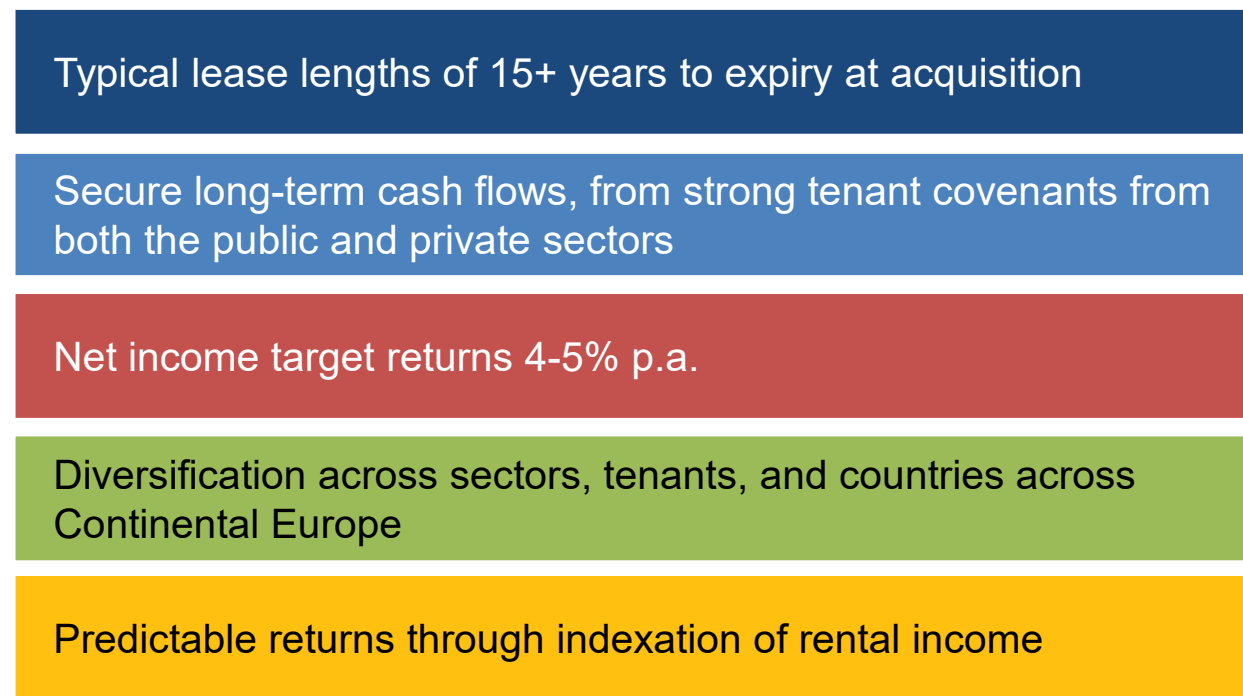
Cash flow matching through secure real estate income

Meeting client investment needs

Investors needs



European Long Lease Real Estate



Risk: Income return targets may not be achieved.

Key Risks

Past performance is not a guide to future performance.

The value of an investment and any income from it may go down as well as up and the investor may not get back the original amount invested.

Where funds are invested in real estate/infrastructure, investors may not be able to switch or cash in an investment when they want because real estate/infrastructure may not always be readily saleable. If this is the case we may defer a request to switch or cash in units. Investors should also bear in mind that the valuation of real estate is generally a matter of valuers' opinion rather than fact.

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