

# Aberdeen Asset Management

Recently, **Geoffrey Dobrmann**, editor-in-chief of The Institutional Real Estate Letter – North America, spoke with **Michael Rønnelund** of Aberdeen Asset Management. The following is an excerpt of their conversation.

*How is Aberdeen structured?*

Aberdeen Asset Management is a well-established pure asset management company with a very experienced team. As of December 2012, assets under management amount to \$314 billion, including \$29.7 billion in property. Aberdeen is a geographically diverse company. We have 31 offices across the world and almost 2,000 staff, including 500 investment professionals. What really sets us apart from many other asset management companies is that our sole focus is asset management. We are not related to a banking or insurance group. We have to do our best in the market to ensure the assets under management deliver performance and customer satisfaction.

*What is the advantage of being independent? What competitive advantage does that bring you?*

We believe that not being associated with a bank or insurance company keeps Aberdeen sharp because we always have to continue to deliver strong performance in order to maintain and expand our business. This independence is the basis for our alignment of interest with our investors and is, in our opinion, key to asset management. Investors with us will know that Aberdeen will strive to deliver top performance in order to keep the business.

*How big is Aberdeen's property platform in the Nordic region?*

In the Nordic region, Aberdeen has around €9.3 billion (roughly US\$12.2 billion) of assets under management, or approximately 620 properties. Aberdeen has a differentiated footprint in the region, with 14 offices, including all the major cities, and over 250 staff. Aberdeen has 15 active country or Pan-Nordic funds and several segregated mandates. Aberdeen has been active in the region since acquiring an already long-established real estate asset management platform in 2001 and has a strong performance track record. We believe that our position is unrivaled in the region.

*What are the competitive advantages of Aberdeen's Nordic property platform?*

As mentioned earlier, Aberdeen has been in the Nordic region for more than 15 years, which we feel gives us a distinctive insight and understanding of the drivers in the individual property markets. We believe that this experience benefits us when we source deals and manage our assets. We have a secure presence and insight in all the major cities in the Nordic region. Furthermore, we cover the entire value chain of asset management — fund management, asset management, property management, transactions, leasing, treasury and regional research. With the footprint that we have in the region, we have significant access to sourcing deals. Aberdeen has access to most of the deals in the region, both high-end, blue-chip deals that are offered to major local and international investors through structured processes, as well as smaller off-market deals, which we feel are often more attractive. A local presence also means



**Michael Rønnelund** is Fund Manager for Aberdeen's Nordic Core investments and is based in Denmark. He holds a master's degree in auditing and accounting and 12 years' professional experience. Prior to joining Aberdeen Asset Management in 2011, he worked for Sadolin & Albæk (an affiliate of Jones Lang LaSalle) and Deloitte.

## CORPORATE OVERVIEW

Aberdeen Asset Management is a global investment management group, managing assets for both institutional and retail clients from offices around the world. Its mission is to deliver strong fund performance across diverse asset classes in which Aberdeen believes it has a sustainable competitive edge. Aberdeen Asset Management is an active property investment manager with an unrivaled local presence in key international markets. The group offers separate accounts and commingled funds, including funds of funds.

## CORPORATE CONTACT

**Jonathan Matson**, Senior Business Development Manager – Real Estate Americas  
Aberdeen Asset Management Inc.  
+1 212-776-1175  
[jonathan.matson@aberdeen-asset.com](mailto:jonathan.matson@aberdeen-asset.com)

close relationships with the tenants and the leasing market, which is crucial for optimizing the rental income.

*Can you talk a little more about Aberdeen's abilities at sourcing investments through the Nordic region?*

Aberdeen is well positioned throughout the region, and we are offered a good portion of the deal flow that is available in the region. Aberdeen has a dedicated transaction team in each country whose primary job is to access all property investors, developers and brokers that operate in the market daily. Some of our competitors open a regional office and try to use that to source deals throughout the region. Aberdeen believes in a different approach. We believe a property management firm needs to be local; it needs to be on the ground in every country and all the major cities.

*How would you describe Aberdeen's approach to property investments?*

Aberdeen's approach can be divided into three phases: allocation, selection and management of risk. In the allocation process, we, together with a client or fund, define the risk controls and the risk tolerance. Risk controls refers to requirements we set to guide the strategy; for example, we must invest in three out of four countries, we must invest in retail or we cannot invest in logistics. Risk tolerance refers to how much risk we are willing to take: Is it a core strategy, a value-added strategy or an opportunistic strategy? Once we have defined those risk controls and risk tolerance, together with the client or the fund, we move into the selection phase. In the selection process,

we screen the entire market and, based on the strategy we have, we will evaluate potential deals, conduct our due diligence, perform our risk assessment, look at durability of income, potential for growth, etc. In the selection process, we also prepare a valuation, a long-term view on how we see the fundamental value of the asset. If we believe the value is higher than the offered price in the market, we will try to purchase that asset. Once the asset is in the portfolio, we move into the management-of-risk phase, where we implement our asset management process, which includes investment plans, health checks, both of which are done yearly, along with a hold-sell analysis.

*Can you explain a little bit about how you manage your investments and create value?*

In addition to an analytical and structured approach in the screening and selection phase of property investments, we also seek to create value in the management of risk phase — basically the asset management phase. We try to manage risk; we cannot manage market returns. Our approach depends on the strategy. If we execute against a core strategy, we are very income-driven, focusing on maintaining a high income and low vacancy in the property. If we are more value-added, we will aim for investments that require more asset management. Historically, Aberdeen has had strong performance in the region through several active funds. Most of the funds have been active in the lower part of the risk spectrum.

*What drives the Nordic countries' economies and their property markets?*

The Nordic countries are perceived as a safe haven from an international investor's perspective. The four main Nordic countries are rated AAA with all three major rating agencies.<sup>1</sup> Only 11 countries in the world have AAA ratings with all the major rating agencies, and four out of 11 are in the Nordics. Countries obtain an AAA rating through low unemployment, strong public balances, and low debt compared to gross domestic product (GDP). The average debt compared to GDP in the Nordic countries is roughly half of that in the Eurozone and below half of what you see in the United States. In addition, there is a very competitive business environment in the Nordic countries. All four countries are ranked among the top 15 most competitive business environments in the world by World Economic Forum. This provides potential opportunities for local businesses. And finally, the Nordics are actually very diversified economies: Denmark has a lot of agriculture, pharmaceutical and shipping companies; Finland has paper and pulp companies; Sweden has machinery and cars; and Norway has oil, gas and fishing. If you look at the property market fundamentals, you see that the Nordics constitute 15 percent of the total European property market.<sup>2</sup> The property market is actually larger than in markets such as Australia

and Canada. The market is also very transparent. Within the Jones Lang LaSalle Transparency Index,<sup>3</sup> all four countries in the region are ranked as either transparent or highly transparent. And finally, the property market has on average over the past 12 years been able to outperform both global property markets and Pan-European property markets.

*As you note, this is a very stable region, so why does Aberdeen favor a core strategy in the Nordics? Why not take on more risk in such a stable region?*

Aberdeen continuously performs analysis in the region and we came to the conclusion that a core strategy will potentially deliver the highest risk-adjusted returns. Aberdeen is currently launching a new core strategy in the region. We see investor demand for core, stable income-producing, low-leveraged funds in stable and healthy economies. I can understand the perception that in a stable region it could be a good idea to take on a little bit more risk. But when you take on more risk, you take on financing risk, because financing often is needed to exercise the business plan, and there also is risk in connection with the exit plan. Unless you really move assets from value-added into core, your exit is connected with uncertainty both in terms of pricing and timing. So, from a bottom-up perspective, when we look at the assets, the business plans and the submarkets, we cannot justify taking on additional risk from financing; that is why Aberdeen currently prefers a core strategy.

*Where do you see the opportunities in the region? Do you favor any particular sectors or countries?*

If we look at the market right now, we see opportunities within Swedish retail and Finnish industrials. We believe that the outlook both in terms of rental and capital growth looks quite attractive for assets in these sectors. If we broaden the view and look at an overall allocation between countries, Aberdeen is pretty much in line with the Investment Property Databank (IPD) benchmark index for each country. Sweden is the largest sub-market in the region and is also where we frequently will allocate the largest amount of our investments. If we look at the allocation between sectors, the IPD benchmark for office is close to 60 percent. Aberdeen will go below that target for office, but increase exposure to retail and industrial/logistics. Aberdeen is positive on retail from a top-down perspective. The Nordic region enjoys low unemployment, and unemployed workers still receive generous benefits from the government. Additionally, there are strict zoning and planning regulations for developing new retail in the region, which puts a limit on supply. Aberdeen also favors industrial and logistics; since it is reasonably priced to construct a new logistics hub, we would focus on monopoly-like positions. Additionally, the demand from investors for logistics is not that high in this region, so we benefit from low competition for these assets. ❖

<sup>1</sup> Standard & Poor's credit ratings express the agency's opinion about the ability and willingness of an issuer, such as a corporation or state or city government, to meet its financial obligations in full and on time. Standard & Poor's credit ratings are expressed as letter grades that range from "AAA" to "D" to communicate the agency's opinion of relative level of credit risk. Ratings from "AA" to "CCC" may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories. The investment grade category is a rating from AAA to BBB-. Ratings are subject to change.

<sup>2</sup> Professionally managed stock, estimated by IPD. 2011 figures. Source: IPD, March 2012.

<sup>3</sup> The Jones Lang LaSalle Global Real Estate Transparency Index is a survey that quantifies real estate market transparency across 97 markets worldwide.

<sup>4</sup> Investment Property Databank benchmark indices track the investment returns for each of the most mature and transparent property markets around the world.

Investments in property may carry additional risk of loss due to the nature and volatility of the underlying investments. Real estate investments are relatively illiquid, limiting the ability to vary investments in response to changes in economic and other conditions. Property values can be affected by a number of factors, including, inter alia, economic climate, property market conditions, interest rates, and regulation. Foreign investments are more volatile, harder to price and less liquid than U.S. investments; and are subject to different accounting and regulatory standards, and political and economic risks. Diversification does not guarantee a profit or protect against a loss.

Aberdeen Asset Management is the marketing name in the U.S. for the following affiliated, registered investment advisers: Aberdeen Asset Management Inc, Aberdeen Asset Management Investment Services Ltd, Aberdeen Asset Management Ltd and Aberdeen Asset Management Asia Ltd (collectively, the "Aberdeen Advisers"). Each of the Aberdeen Advisers is wholly owned by Aberdeen Asset Management PLC. "Aberdeen" is a U.S. registered service mark of Aberdeen Asset Management PLC.