

In order to protect customers remaining invested in the Standard Life Investments UK Property Fund, Standard life Investments have swung their pricing bases from offer to mid. This is the underlying fund our Property funds currently invest in and the change has resulted in a 5.5% unit price drop on the Standard Life Property Fund* with effect from the 16th May 2016.

Asset managers regularly review and change the pricing bases of their funds to reflect customer behaviour so this is a normal process which aims to ensure fair treatment of customers whether they are remaining invested in the fund or not.

1. What does a change to the pricing basis mean?

Cashflows have turned broadly neutral to slightly negative for the underlying property fund, and there is an expectation for this trend to continue over the coming months. A move to the mid-price, therefore, recognises that the fund is not currently expanding nor incurring the transaction costs associated with the purchase of new property to support that expansion (these costs include stamp duty, legal fees and agent fees).

For property funds the spread between the offer, mid and bid prices is much larger than for other asset classes due to the significantly higher costs associated with buying and selling property (much like for individuals when buying and selling their homes).

The change in pricing basis is not a charge and does not benefit Standard Life or Standard Life Investments.

2. Is this move related to the merger of the two Property Funds?

No, this move is unrelated to the merger of the Standard Life Investments UK Property Fund and the Standard Life Investments UK Ignis Property Fund. Both funds have moved their pricing basis from offer to mid basis.

Market feedback confirms that investors have been trimming overweight positions to property given the strong run of performance in recent years compared with other asset classes.

3. Can I still disinvest my money from the Fund?

Yes, the Property fund remains open to daily dealing.

4. Why are you swinging the price when there is still a large cash balance on the Fund?

Changes to the pricing basis are not driven by the cash position of the fund, but rather the general trend of monetary flows over the previous 1, 3, 6 and 12 months.

When investors purchase/redeem units in a property fund they are effectively buying/selling a pro-rata slice of all the assets within the fund. This principle is used to ensure that when it is necessary to purchase or sell a property asset to meet a purchase or sale of units; the risk of dilution to ongoing investors is mitigated.

5. Is this the end of the cycle for UK commercial real estate?

Returns for property continue to moderate from the recent highs, but remain compelling relative to the expected return from other asset classes. The yield premium achieved through investing in UK commercial property over equities and bonds remains a key appeal for this asset class. Total returns for UK commercial property appear to have peaked and it is anticipated that more normalised returns are in prospect for the next few years. Further, income and rental value growth are likely to be the main components of returns going forward as opposed to capital growth which has been the key element of returns over the past few years.

Given the backdrop of heightened macro uncertainty, investors are becoming more risk averse and better quality assets are once again broadly outperforming poorer quality ones. Prime/good quality and selective secondary quality assets in stronger locations are likely to provide the best opportunities in the robust economic environment we anticipate further into 2016 and beyond.

Source: Standard Life Investments May 2016

*this change applies to both the net and gross version of the Standard Life Property Fund.

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