

## abrdn Global Real Estate Active Thematics (GREAT) UCITS ETF

Fund Update – May 2024

Tickers: R8TA (USD), R8T (EUR), AREG (GBP)

For professional investors only (in Switzerland for qualified investors). Not for use by retail investors. For sale in selected countries: Austria, Belgium, Denmark, Finland, France, Germany, Iceland, Ireland, Italy (for professional investors only), Luxembourg, Netherlands, Norway, Sweden & United Kingdom.

**This is a marketing communication. Please refer to the prospectus of the UCITS and see the Key Investor Information Document (KIID) or Key Information Document (KID) for details before making any final investment decisions.**

French investors should note that, relative to the expectations of the Autorité des Marchés Financiers, this fund presents disproportionate communication on the consideration of non-financial criteria in its investment policy.

The value of investments and the income from them can go down as well as up, and investors may get back less than the amount invested.

abrdn Global Real Estate Active Thematics (GREAT) UCITS ETF, a US Dollar denominated sub fund of abrdn III ICAV. This Fund is managed by Carne Global Fund Managers (Ireland) Limited (the "Manager").

### Objectives and Investment Policy

To generate growth over the long term (5 years or more) by investing in listed real estate investment trusts ("REITs") and equities (company shares) of companies engaged in real estate-related activities globally.

Performance Target: To outperform the FTSE EPRA NAREIT Developed Net Index (the "Benchmark Index") before charges. There is however no certainty or promise that the Fund will achieve the Performance Target. The Investment Manager believes this is an appropriate target for the Fund based on the investment policy of the Fund and the constituents of the Benchmark Index.

#### Risks

All investment involves risk. This fund offers no guarantee against loss or that the fund's objective will be attained. The price of assets and the income from them may go down as well as up and cannot be guaranteed; an investor may receive back less than their original investment. Inflation reduces the buying power of your investment and income. The value of assets held in the fund may rise and fall as a result of exchange rate fluctuations.

#### Equity risk

The fund invests in equity and equity-related securities. These are sensitive to variations in the stock markets, which can be volatile and change substantially in short periods of time.

#### Concentration risk

A concentrated portfolio may be more volatile and less liquid than a more broadly diversified one. The fund's investments are concentrated in a particular country or closely related group of industries or sectors.

#### ESG risk

Applying ESG and sustainability criteria in the investment process may result in the exclusion of securities within the fund's benchmark or universe of potential investments.

The interpretation of ESG and sustainability criteria is subjective, meaning that the fund may invest in companies which similar funds do not (and thus perform differently), and which do not align with the personal views of any individual investor.

#### Real estate investment trust risk

Dividend payment policies of the REITs in which the fund invests are not representative of the dividend payment policy of the fund.

#### Derivative risk

The use of derivatives carries the risk of reduced liquidity, substantial loss and increased volatility in adverse market conditions, such as a failure among market participants.

The use of derivatives may result in the fund being leveraged (where market exposure and thus the potential for loss by the fund exceeds the amount it has invested), and in these market conditions the effect of leverage will be to magnify losses.

## Headline Bullets

- The GREAT ETF share price outperformed its benchmark index, on a NAV basis, over the month (+0.32%) and continues to outperform over the period since launch (+0.15%). Since inception (01/03/2023) to end May, the GREAT ETF NAV return was 2.07% while the FTSE EPRA NAREIT Developed Net Index returned 1.92%.
- The logistics market, and Pan-Euro Logistics in particular, boosted performance as the sector continues to benefit from onshoring and supply chain reconfiguration trends. Our view is that the sector remains attractively priced after underperformance in 2022.
- Our HouseView remains very positive on the sectors with strong fundamentals. This translates into **key portfolio overweight positioning in the residential (incl. student accommodation), logistics and alternative sectors** where vacancies are low as is future supply and demand remains strong and continues to benefit from thematic tailwinds.
- We expect a three-phase outlook. Firstly, we believe the **yield revaluation is approaching its final adjustment**. Secondly, we expect a **recovery to materialise in the second half of 2024**, with a gradual recovery in economic growth and falling interest rates. This is then followed by the final phase, which is a **period of reasonable rental growth** because of persistent low supply and weak construction activity.



## Performance

The GREAT ETF share price outperformed its benchmark index, on a NAV basis, over the month (+0.32%) and continues to outperform over the period since launch (+0.15%).

Fund Performance vs Benchmark	1 Month (%)	Since Inception (%)*
Gross Daily Time Weighted Return	3.80	3.08
Share Price Return	2.87	2.28
NAV Return	3.75	2.07
FTSE EPRA Nareit Developed Net Return	3.41	1.92

Relative Performance vs Benchmark	1 Month (%)	Since Inception (%)*
Geometric Relative Return v GDTW	+0.38	+1.13
Geometric Relative Return v Share Price	-0.52	+0.35
Geometric Relative Return v NAV	+0.32	+0.15

\*Source: abrdn & FTSE, since inception figures from 01/03/2023 to 31/05/2024

### Notable Outperformers

**Japanese Developers.** The fund's underweight in Japanese developers contributed positively to performance as the sector saw profit taking following the release of earnings and communication of earnings guidance for the coming year. Guidance was fairly conservative, and the markets see an absence of incremental earnings-related catalysts for the next six months or so, and therefore used this window of time to take profit.

### Notable Underperformers

**AUS Industrial.** The underweight position to the Australian Industrial sector was a performance detractor over the month as the sector outperformed the market. The key driver of this outperformance was the sharp rally in shares of industrial and digital infrastructure stock Goodman Group who upgraded FY 24 guidance, for the second time this year, on their Q3 earnings update.

**AUS Diversified.** AUS diversified underperformed due to a drag from the fund's overweight in Mirvac, which notably

**Pan-Euro Logistics.** The overweight position to the Pan-European Logistics market remains one of the Fund's key overweight positions. The sector continues to benefit from onshoring and supply chain reconfiguration and, in our view, remains attractively priced after underperformance in 2022.

**JREITs.** Further speculation of BoJ tightening, through a reduction in the pace of bond purchases, has negatively impacted sentiment for JREITs leading to underperformance over the month. The Fund's underweight positioning was therefore beneficial.

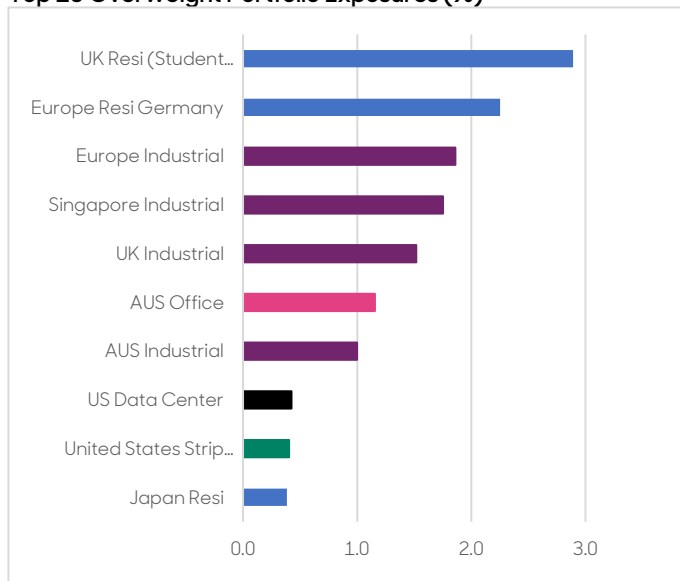
underperformed its AREIT peers on the back of growing market concerns over earnings risk, driven by the postponement of the residential market recovery (as interest rate cuts are getting pushed out).

**US Industrial.** US Industrial REITs underperformed in the month continuing the trend that began in April following the reduction in earnings guidance by Prologis. Supply pressures, particularly in Southern California, and a drop in leasing activity, as 3PL tenants pull back on their prior levels of demand, is slowing the pace of market rent growth leading to the underperformance.

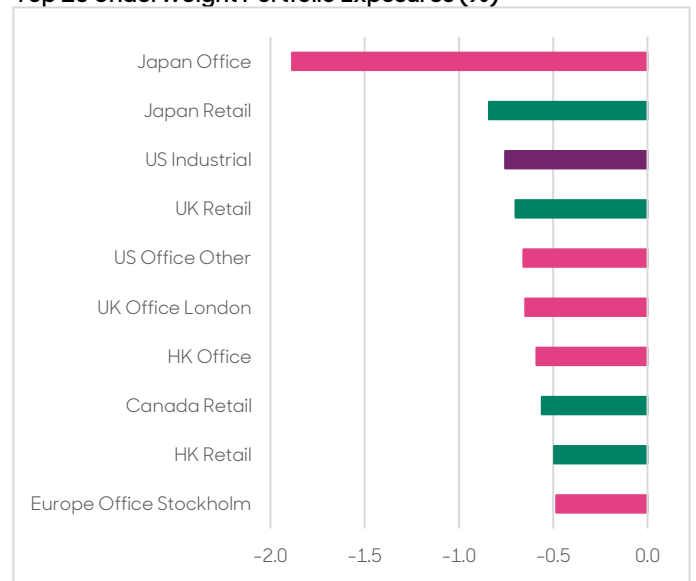


### Portfolio Positioning

Top 10 Overweight Portfolio Exposures (%)



Top 10 Underweight Portfolio Exposures (%)



■ Residential ■ Industrial ■ Office ■ Retail ■ Other

■ Residential ■ Industrial ■ Office ■ Retail ■ Other

Source: abrdn, May 2024, figures exclude cash



## Market Overview

### Europe

- The Eurozone economy looks set to sustain its return to growth, with PMIs generally trending in a positive direction and momentum building within the economy. Household consumption is set to grow solidly, with consumers benefitting from strongly positive real earnings growth.
  - Inflation jumped up 20 basis points to 2.6% in the Eurozone, as a result of stronger services inflation. This is playing out as expected with the 'last mile' of the inflation fight proving more difficult. Pressure on services prices from elevated unit labour cost growth remains strong. However, we continue to expect inflation to remain close to target for the rest of the year owing to continued tight monetary policy.
  - The European Central Bank (ECB) cut rates in June for the first time in five years. However, the inflation data in May means the central bank signalled the July meeting is off the table and we now expect just two further 25 basis point cuts this year.
  - Operationally, European real estate continues to perform well. Data from MSCI shows rents increased by 6.8% in logistics, 6.3% in residential, by 2.8% in offices and 1.6% in residential property over the year to Q1 2024. This strong rental performance is a distinct difference to previous cycles when rents have typically fallen through corrections. We do not believe recent political results in the EU parliamentary elections will have a significant impact on the direction of the real estate market as the centre-right appears to have held off a rise from far-right parties. The snap parliamentary elections called in France have increased uncertainty in France and we believe investors will take a more cautious approach to the French market.
  - Looking ahead, we expect values to begin recovering in the latter stages of 2024, with a combination of rental growth and yield compression gradually adding to improving total returns. Secondary-quality assets face ongoing challenges with tenants and investors preferring future-fit assets.
  - Liquidity remains low which can be seen in muted transaction volumes and deal introductions. But we also see some soft improvement of activity. Sector trends are emerging as expected – with industrial leading followed by living-segments. Offices continue to show a very polarised picture, as does retail.
  - We expect a three-phase outlook. Firstly, we believe the yield revaluation is approaching its final adjustment. Secondly, we expect a recovery to materialise through a gradual recovery in economic growth and falling interest rates in 2024. This is then followed by the final phase, which is a period of reasonable rental growth because of persistent low supply and weak construction activity. Through the next three years we favour thematic allocations to logistics, residential and alternative sectors, whilst keeping low exposure to offices and the more challenged retail formats.
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### UK

- A UK election has been called for July 4, with the country preparing for its first national vote since 2019. The Labour Party is very likely to win the upcoming general election, with the latest polls indicating that the Labour Party has opened up a 20-point lead over the Conservative Party. However, any significant shifts in fiscal or supply-side policies are unlikely in the near term.
  - The latest jobs data in the UK painted a mixed picture. Whilst the unemployment rate rose to 4.4% in April, from 4.3% between January and March, which is indicative of a cooling labour market, real wage growth was 2.3%. Real wage growth is expected to remain strong in the UK, which should continue to support consumer sentiment and spending.
  - There is little in the latest jobs reports to change how the Bank of England is thinking about the next few policy meetings. A cut in June is very unlikely, but further evidence that underlying inflation is moderating should be enough to deliver its first cut in August.
  - Capital values for all commercial property registered the first monthly increase of the year in May 2024 according to the latest CBRE UK Monthly Index. Retail capital values rose 0.4% in May, largely driven by retail warehouses posting a capital value increase of 0.7%. The industrial sector also saw values increase by 0.4%, whilst the office sector remains the laggard with capital values decline by 0.3% in May.
  - There are tentative indications that UK commercial real estate values are approaching a floor, especially for in favour sectors like retail warehousing, industrials and living. A common theme across all UK real estate sectors however is the resilience of the occupational market. This is evidenced by rental value growth which remains positive across all sectors, including offices.
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### US

- There are tentative signs that growth is starting to moderate, as survey data softened, retail sales came in under expectations, and interest-rate sensitive activity remains under pressure. The labour market is strong, but the latest report pointed to slowing momentum and we still think there is modest disinflation in the pipeline. We continue to think equilibrium rates remain low, which could provide more room to cut later in the cycle.
- Office sector struggles continue, and nationwide space demand is forecasted to continue being negative till mid-2025. Multifamily supply numbers are still challenging especially in the sunbelt, despite accelerating absorption. Industrial demand seems to be returning as business inventories mark increases from past quarter, but elevated delivery numbers will continue to slow down rent growth and while Y-o-Y numbers stand at 4.4% growth, rent growth over this half of 2024 has only moved up 1.8%.

- Deal volume remains muted in Q2 2024 and sits at a level 45% lower than a year ago. Office CMBS delinquencies are up over 400bps Y-o-Y and multifamily delinquencies remain elevated relative to historical levels at 1.84%. Attractive opportunities may arise as lenders are not keen to hold on to real estate that has undergone significant value correction on their books. It's also important to highlight that the arising opportunities in multifamily are not limited to assets in the sunbelt.
- We prefer smaller industrial spaces on the east, gulf coast and the Midwest as inbound freight volume growth of ports and terminals servicing these regions have returned to outperforming their west coast counterparts. Established east-coast population hubs and D.C are our multifamily preference, due to robust supply & demand dynamics. Views on strip retail remain positive due to a lack of new supply.

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## APAC

- Chinese activity had started Q2 robustly but appears to be softening again in May. Incremental policy easing is likely to remain the modus operandi. The BOJ's recent communication has turned hawkish but weak domestic demand will limit its ability to hike meaningfully. While India's inflation has slowed, solid growth and food price uncertainties suggest the RBI is in no rush to cut rates. As well, there remains some distance from where Australia's easing may begin.
- JLL's latest data indicates more market/sectors saw improved y-y changes in rents in 1Q24 amid growing bifurcation in occupier market performance. Over half the market/sectors we track reported faster y-y rent growth (or slower rent decline) during the quarter (from 38% in 4Q23). Brisbane's Prime Grade CBD offices (+19%y-y in 1Q24, from 17% in 4Q23), Melbourne's industrial/logistics properties (+18%, from +16%), and retail properties in Bangalore (+16%, from +11%) led 1Q24 y-y rent growth performance.
- The improved y-y changes in rents translated into better y-y changes in capital values in 1Q24, with 62% of market/sectors we track registering faster growth/slower decline (from 49% in 4Q23). Indian and Japanese market/sectors led APAC's capital value gains during the quarter. Properties in Australia and Chinese T1 cities saw the most meaningful yield expansions in APAC in 1Q24 but most of the region's market/sectors are still trading at tight yield gaps relative to history.
- We expect near-term capital returns in APAC to remain under pressure, regardless of whether rate cuts happen in 2024. Over the longer term, our base case remains for interest rates to retreat to lower levels. We expect lower interest rates to therefore support better capital returns beyond the immediate 12-24 months. Higher property yields in the near term are therefore likely to offer good opportunities for investors to pick up grade-A assets in core locations.



## Market Outlook

As we move further into 2024, we anticipate that most of the real estate pricing correction will have played out at an all-property level. However, expectations for capital values vary at a sector level. Assets in sectors that are unlikely to benefit from thematic tailwinds are particularly vulnerable. Poor-quality assets, where future retrofit costs are rising because of more onerous environmental legislation, are also unlikely to perform. We expect further capital decline for these types of assets.

Although we are more positive about the market's prospects, the expected turning point has been delayed by sticky inflation and hesitancy to ease policy, particularly in the US. Investment activity remains subdued, but there are signs that sentiment is improving towards certain areas of the market. We expect activity and sentiment to improve as the year progresses.

We remain very positive about sectors with strong fundamentals, such as logistics, residential, retail warehouses, and some alternative sectors. Vacancies are low in these sectors as is future supply. Demand also remains strong and is benefiting from thematic tailwinds.

We expect a three-phase outlook. Firstly, we believe the yield revaluation is approaching its final adjustment. Secondly, we expect a recovery to materialise in the second half of 2024, with a gradual recovery in economic growth and falling

interest rates. This is then followed by the final phase, which is a period of reasonable rental growth because of persistent low supply and weak construction activity.

While risks are elevated in the first half of 2024, attractive opportunities are emerging. For those with equity, opportunities to invest at attractive pricing points should emerge this year. The UK, US, and parts of Europe are expected to lead the recovery. APAC is experiencing a more muted cycle, aside from the Chinese real estate crisis. Logistics, alternatives (other) and residential sectors are expected to outperform retail and offices, although retail warehouses and core CBD offices offer better performance within their sectors.



## Why the GREAT ETF?

The abrnn Global Real Estate Active Thematics (GREAT) ETF is an active, low-cost, and liquid strategy that offers investors the opportunity to invest directly in the highest conviction global real estate calls as identified by abrnn's Global Real Estate Research team. GREAT is a thematic proposition that is positioned with a view to the future. It targets those areas of the market that our Research team expect to be underpinned by long-term structural drivers of demand; Technology, Demographics & Sustainability. It aims to achieve this by leveraging our proprietary Global Real Estate HouseView which researches 28 markets globally and ranks more than 280 market segments based on our projected returns over three years. GREAT will proactively tilt exposures in favour of those HouseView sectors expected to outperform, whilst looking to reduce exposures to sectors that are forecast to underperform. It will dynamically rebalance on a quarterly basis, to account for HouseView changes, with the aim of unlocking through-the-cycle returns for investors. The strategy is managed around an ESG-focused investment framework that is SFDR Article 8 compliant.

1. Differentiated, **active** management strategy, that targets our highest conviction global real estate calls.
2. **Only active real estate ETF** of the c40 available in the market.
3. Leveraging the **thematic insights** of our Global Real Estate Research team's HouseView.
4. **Dynamically tilting exposures** in favour of those HouseView sectors expected to outperform, rebalanced and updated on a quarterly basis.
5. ESG-focused investment framework that is **SFDR Article 8 compliant**.
6. **Low-cost** solution that is priced on a par (40bps TER) with passive equivalents.
7. We believe the Fund is positioned well for the current environment given ongoing **polarisation** in sector performance.

## Useful Material

[Fund Website](#)

[Fund Guide \(PDF\)](#)

[Global REITs: near-term interest rate obsession and longer-term opportunity \(PDF\)](#)

[REITs: back on track | abrnn](#)

[Global real estate market outlook Q1 2024 | abrnn](#)

[Insights and Research | Insights | abrnn](#)

[Global Real Estate Strategies \(PDF\)](#)

[Long Term Thematic Trend is Your Friend \(PDF\)](#)



Discrete Annual Returns – Year to 31 May	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Gross Daily Time Weighted Return	7.21	-	-	-	-	-	-	-	-	-
Share Price Return	6.21	-	-	-	-	-	-	-	-	-
NAV Return	6.17	-	-	-	-	-	-	-	-	-
FTSE EPRA Nareit Developed Net Return	7.31	-	-	-	-	-	-	-	-	-

Relative Performance vs Benchmark	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Geometric Relative Return v GDTW	-0.09	-	-	-	-	-	-	-	-	-
Geometric Relative Return v Share Price	-1.03	-	-	-	-	-	-	-	-	-
Geometric Relative Return v NAV	-1.06	-	-	-	-	-	-	-	-	-

Source: abrdn & FTSE, figures to 31/05/2024



### Important information

The fund is a sub fund of abrdn III ICAV, an open-ended umbrella fund which is regulated by the Central Bank of Ireland and with segregated liability between sub-funds registered in the Republic of Ireland (no. C469164) at 70 Sir John Rogerson's Quay, Dublin 2.

This fund is categorised as Article 8 under SFDR. Details of abrdn's Sustainable and Responsible Investment Approach are published at [www.abrdn.com](http://www.abrdn.com) under Sustainable Investing.

Any decision to invest should take into account all objectives of the fund. To help you understand this fund and for a full explanation of risks and the overall risk profile of this fund and the share classes within it, please refer to the Key Investor Information Documents available in the local language, and Prospectus available in English, which are available on our website [[abrdn.com](http://abrdn.com)]. The Prospectus also contains a glossary of key terms used in this document.

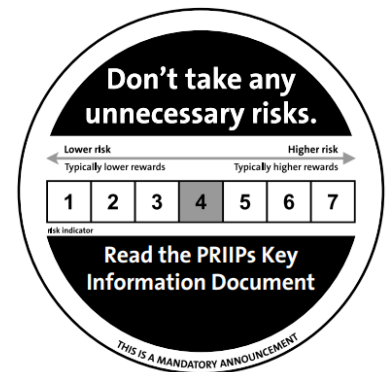
Fund is traded on Deutsche Borse (Xetra) and the London Stock Exchange.

A summary of investor rights can be found in English under Group Policies on the Manager's [website](#)

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Further information about the abrdn Global Real Estate Active Thematics UCITS ETF can be obtained from the prospectus, supplement to the prospectus and latest annual and semi-annual reports once available. These documents are available in English, are free of charge and can be obtained along with other information such as unit prices, from [www.abrdn.com](http://www.abrdn.com), the Manager, or the **Paying agent: EU/EEA territories:** [europeanfacilitiesagent@carnegroup.com](mailto:europeanfacilitiesagent@carnegroup.com) **UK facilities agent:** [UKfacilities@carnegroup.com](mailto:UKfacilities@carnegroup.com)

The Manager may terminate arrangements for marketing the fund under the Cross-border Distribution Directive denotification process.



**In the United Kingdom:** The conditions set out in regulation 63 of the Collective Investment Schemes (Amendment etc.) (EU Exit) Regulations 2019 have been satisfied with respect to the fund, with the result that the fund is treated as a recognised scheme for the purposes of Part XVII of the Financial Services and Markets Act 2000. For so long as the fund is treated as a recognised scheme, the fund may be promoted, and Shares in the fund may be marketed, to the general public in the United Kingdom, notwithstanding the United Kingdom's withdrawal from the European Union. This document and the information contained herein may only be distributed by an Authorised Person in accordance with the FCA rules.

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\* abrdn means the relevant member of abrdn group, being abrdn plc together with its subsidiaries, subsidiary undertakings and associated companies (whether direct or indirect) from time to time.

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