# abrdn Future Real Estate UCITS ETF

Fund Update – February 2025

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

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**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 Future Real Estate 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 Future Real Estate ETF marginally underperformed its benchmark index, on a NAV basis, over the month (-0.11%)**. Since inception (01/03/2023) to end February, the NAV return was 4.99% while the FTSE EPRA NAREIT Developed Net Index returned 5.84%.

- **The global listed real estate market,** as measured by the FTSE EPRA NAREIT Developed Net Index, **continued to increase over February, returning 2.22%, outperforming the MSCI World Index return of -0.72%.**

- The fund's **performance was aided by the underweight exposure to AUS Diversified**. The sector was flat over the month, markedly underperforming the benchmark.

- The fund's **overweight exposure to EU Diversified negatively impacted performance** as higher interest rates weighed on German homebuilder Aroundtown, and concerns about the health of demand for data centers negatively impacted Merlin.

- Our **Multi-asset HouseView retains an overweight recommendation to global real estate**, for both direct and listed real estate.

## Performance

The Future Real Estate ETF underperformed its benchmark index, on a NAV basis, over the month (-0.11%) and it remains marginally behind the benchmark over the period since launch (-0.80%).

| Fund Performance vs Benchmark | 1 Month (%) | 3 Months (%) | 1 Year (%) | Since Inception (% p.a.)* |
|---|---|---|---|---|
| Gross Daily Time Weighted Return | 2.17 | -3.78 | 8.66 | 5.94 |
| Share Price Return | 1.34 | -5.21 | 7.06 | 4.95 |
| NAV Return | 2.11 | -4.01 | 7.80 | 4.99 |
| FTSE EPRA Nareit Developed Net Return | 2.22 | -3.36 | 10.03 | 5.84 |

| Relative Performance vs Benchmark | 1 Month (%) | 3 Months (%) | 1 Year (%) | Since Inception (%)* |
|---|---|---|---|---|
| Geometric Relative Return v GDTW | -0.05 | -0.44 | -1.24 | 0.09 |
| Geometric Relative Return v Share Price | -0.86 | -1.91 | -2.69 | -0.85 |
| Geometric Relative Return v NAV | -0.11 | -0.68 | -2.02 | -0.80 |

**Source: Aberdeen & FTSE, since inception figures from 01/03/2023 to 28/02/2025*

### Notable Outperformers

**AUS Diversified:** The sector turned in flat returns over the month, markedly underperforming the benchmark. As such, our underweight to the sector contributed to fund performance. There was no meaningful dispersion at the stock-specific level within the group.

**JP Developer:** JP Developers sold off amidst a broader equity selloff in many developed markets. Our underweight in the sector contributed positively to performance.

### Notable Underperformers

**EU Diversified:** The Fund's overweight exposure to the EU diversified sector negatively impacted performance as the higher interest rates, weighed on German homebuilder Aroundtown, and concerns about the health of demand for data centers negatively impacted Merlin.

**JREITs:** Our underweight in the JREIT sector was a detractor of performance, where markets sought exposure in lower volatility, yielding sectors amidst rising equity market volatility. There is also a view that the Bank of Japan is unlikely to hike interest rates when the markets are

**US CBD Office:** The underweight exposure to the office sector benefitted the fund as the sector sold off following lackluster Q4 earnings announcements and on concerns about the health of office demand in light of economic uncertainties.

volatile, alleviating this piece of near-term headwind for the JREIT sector. Recent M&A activity in the sector has also increased investor interest in the sector, where rising rates have resulted in many names trading below net asset value.

**Pan-Euro Logistics/Industrial:** Concerns around the impact on global trade resulting from tariffs led to underperformance by the logistics sector in February, partially reversing the strong start of the year the sector achieved in January. The Fund is overweight to the sector and therefore underperformed due to this position.

## Market Overview

### Europe

- The European economy is showing mixed signals. On one hand, the Eurozone is recovering from recession-like conditions experienced over 2023/2024, with monetary policy easing expected to support this recovery. However, there are significant risks, including potential tariffs from the US and geopolitical uncertainties. Inflation has dipped to 2.4% in February, driven by falling gas and oil prices and looser labour market conditions in France and Germany. The European Central Bank (ECB) is likely to continue lowering rates in 25bps increments, but outright accommodation remains uncertain while geopolitical risks are elevated and inflation pressures could return.
- European real estate continues to show gradual improvements. MSCI reported an All Property pan-European total return of 4.4% in 2024, with industrials (6.2%), hotels (6%), residential (5.6%), and retail (5%) sectors staging a comeback. Offices lagged with 1.9%. A total return of 7.9% is forecasted for 2025, with potential upward or downward adjustments depending on the outcome of tariff negotiations, additional infrastructure and defence spending in Germany and across Europe.
- Investment in European real estate is on the rise, with a 3.0% year-on-year increase and a 4.0% increase comparing Q4 2024 with Q4 2023. Competition for quality assets in logistics, retail parks, core offices, and residential is expected to lead to valuation increases as comparable evidence becomes more abundant. Cheaper debt is also facilitating investment, with bank margins under continued downwards pressure.
- Rental growth in logistics appears to be slowing, while prime office rental growth is strong, with REITs like Colonial reporting 7-9% growth in Paris and Madrid. Office shortages are becoming a key issue, with resilience in take-up, rents, and investment.
- We continue to expect logistics, core offices, retail parks and residential to deliver strong total return performance as the market continues its uneven recovery across markets and sectors.

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### UK

- Economic growth in the UK surprised to the upside over Q4 at 0.1% after a small contraction was expected. Still, growth is clearly muted which has prompted certain Bank of England (BoE) policymakers to vocalise their concerns. The BoE is expected to maintain a gradual and careful easing of rates over 2025, with the possibility of a steeper pace into the latter half of the year if inflation tracks expectations. Annual headline inflation surprised to the upside in January at 3.0% although underlying pressures remained largely as expected, leaving policy outlook unchanged. Energy prices should push inflation higher over this year, and further muddying the waters is continually shaky labour data from the ONS. Annual wage growth also came in above expectations through December 2024 at 6.0%.
- The Office for Budget Responsibility is preparing to release its forecast for the UK economy in late March. Headlines are likely to focus on the erosion of Rachel Reeves' buffer to meet her budget rule by the 2029/30 financial year. While direct tax increases are less likely to feature, spending cuts and 'stealth' taxes (such as extending tax threshold freezes) could well be in the chancellor's arsenal. UK borrowing costs remain uncomfortably high after taking a sizeable step up in January and the potential of a global trade war further complicates any global outlook. With that said, the UK will be more sheltered from newly introduced tariffs given our relatively shallow trade balance with the US.

- Investment activity has been muted to start the year with volumes down around 50% year-on-year through February. Notably, a sizeable 30% of activity year-to-date has been concentrated in the residential sector as appropriate stock for the office, retail and industrial sectors remains in short supply. This lack of liquidity is expected to continue over the short-term as fiscal and geopolitical uncertainties prevail. Despite this, we see UK real estate performing well over the three-year period with forecasted annualised returns of 8.8%, led by the industrial, retail, and residential sectors.

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**US**

- While downside risks to growth and employment have increased, so have upside risks to the central bank's inflation mandate. Looser fiscal policy, shocks to the supply side via tariff hikes and deportations are expected to leave inflation stuck above target. We think the Fed will wait until September and cut just once this year, but the risk of an indefinite hold has increased.
- Trump has now delayed Tariffs on Mexico and Canada for a second time. Nonetheless, the inflationary effects of the proposed tariffs on Mexico and Canada as well as the reciprocal tariffs on other countries should mean a higher borrowing rate and construction cost environment which all point towards a more muted supply pipeline for real estate. We expect construction cost to rise between 4%-8% if the tariffs on Mexico and Canada are re-imposed at 25%.
- Gap between appraised values and sale prices have narrowed but there might still be some room for further downward pressure on prices, especially in office and industrial sectors. Total deal volume is down 14% year-on-year but individual asset sales, which are a better indicator of investor interest, is up by 1% and despite a less forgiving financing environment, investors are still able to find attractive opportunities.
- Multifamily fundamentals are promising, as excess supply should be absorbed by mid-2025 and a benign supply pipeline through the year should support strong rental growth, Industrials should peak at a relatively low vacancy rate, but a reacceleration of rents will probably come only in 2026. Meanwhile, office performance will be highly dependent on market and asset quality. Retail rent growth should moderate over the course of the year as inflationary pressures hit consumer demand and store closures are expected to double year-on-year.

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**APAC**

- Official data shows the Chinese economy had a solid end to 2024, but Trade War 2.0 and property market challenges will continue to weigh on its 2025 growth outlook. Following the 25bp hike in January, we expect the BOJ to raise rates again in October, but the risk is increasingly tilted towards an earlier hike. The RBA delivered its first rate cut in four years of 25bp in February, but the accompanying statement was hawkish.
- Retail properties in most markets saw lower vacancy in 2024, with leasing demand focused on high-quality space in core locations. Tourism growth and limited new supply remain the key tailwinds for Singapore's prime retail properties, but operational challenges have also risen with tenants like cinemas reportedly falling behind in rents. In HK, more affordable rents will continue to motivate leasing demand for prime retail space though luxury brands are likely to remain on the sidelines.
- Notwithstanding the gradual normalisation of interest rates in Japan, direct CRE investors' sentiment on Japanese offices remains relatively bullish, with expected cap rates for Osaka and Nagoya offices hitting new lows. APAC office REITs outperformed last month, and listed investors are likely positioning for better occupier performance in Australian offices over the next 12-18 months. This is especially the case in Sydney Core CBD where office attendance continues to improve, and incentives continue to shrink.
- All else equal, a slower-than-expected pace of interest rate cuts suggests investors' required returns and property yields could stay elevated for longer, translating into a more cautious outlook for capital returns over the longer term. Our base case of a "K"-shaped recovery in the APAC real estate market remains intact and we believe bottom-up market/stock selection remains key to investment performance. As well, a higher-for-longer rate environment remains constructive for private credit and secondaries strategies.

## Market Outlook

As we enter 2025, most overall real estate price corrections seem to have concluded. REITs and bond markets started the year with elevated volatility as global markets grew concerned about political headwinds, excessive public debt, and a weaker global growth backdrop. However, pressures have since eased and market volatility has dropped.

Notably, real estate markets have generally continued to display strong momentum, despite the nervous start to the year. Some sectors in the UK and Europe have seen values increase. The UK returned a healthy 7% in 2024, highlighting that with elevated yield levels, rental growth and yield impact can be quite modest and still support healthier overall total return performance. Returns in Europe are also turning a corner, with several markets expected to reach 6% returns over the year once the data is released.

In December 2024, our Aberdeen multi-asset investments HouseView further upgraded global real estate to "+2 overweight" (maximum score +4), owing to the clearer improvement in return performance in key markets. This indicates that an underweight allocation is no longer beneficial to multi-asset portfolios, especially in relation to cash returns of 4% to 4.5%. This is a significant call for an asset class that moves in and out of favour less frequently than more liquid asset classes.

Performance expectations vary by sector and region, with APAC lagging the path to recovery. Europe and the UK are now seeing positive capital value movements, with rental growth and yield impact beginning to push returns higher. Sectors missing thematic benefits and low-quality assets facing high retrofitting costs because of strict environmental regulations are still at risk. We anticipate further capital declines for these assets, whichever region they are in.

We are more optimistic about sectors with strong fundamentals like logistics, residential, retail warehouses, and some alternative sectors. High-quality central office spaces are now performing well as rents rise under a short-supply backdrop. These sectors have low vacancies, limited future supply, and strong demand boosted by thematic trends. Data centres and strategies looking to harness the opportunities in the energy transition and rising power demand are growing substantially. The launch of DeepSeek has created some volatility, but it's likely to trim data centre demand, rather than reverse the trend in the years ahead

Expected returns are rising. We forecast a global all-property total return of 5.4% in 2025, with annualised returns of 7% over both the next three- and five-year periods. While geopolitical and economic risks are rising, real estate risks are diminishing, and more opportunities are emerging. There will be attractive investment pricing points for those with equity this year and next year.


### Why the Future Real Estate ETF?

The abrdn Future Real Estate 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 Aberdeen's Global Real Estate Research team. It 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; supply chain reconfiguration, demographics and digitalisation. 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. The Future Real Estate ETF 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 EMEA 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 webpage*
*The REIT time, the REIT place*
*Global Real Estate Market Outlook Q4 2024*
*Insights and Research | Insights | Aberdeen*
*Global Real Estate Strategies (PDF)*
*Long Term Thematic Trend is Your Friend (PDF)*

| **Discrete Annual Returns – Year to 28th February** | **2025** | **2024** | **2023** | **2022** | **2021** | **2020** | **2019** | **2018** | **2017** | **2016** | **2015** |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Gross Daily Time Weighted Return | 8.66 | – | – | – | – | – | – | – | – | – | – |
| Share Price Return | 7.06 | – | – | – | – | – | – | – | – | – | – |
| NAV Return | 7.80 | – | – | – | – | – | – | – | – | – | – |
| FTSE EPRA Nareit Developed Net Return | 10.03 | – | – | – | – | – | – | – | – | – | – |

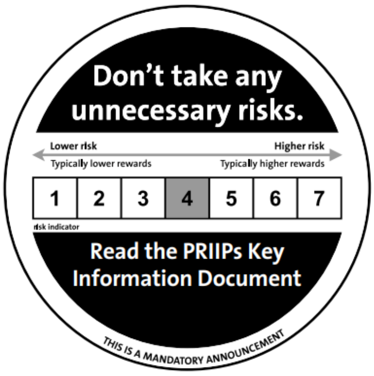
| **Relative Performance vs Benchmark** | **2025** | **2024** | **2023** | **2022** | **2021** | **2020** | **2019** | **2018** | **2017** | **2016** | **2015** |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Geometric Relative Return v GDTW | -1.24 | – | – | – | – | – | – | – | – | – | – |
| Geometric Relative Return v Share Price | -2.69 | – | – | – | – | – | – | – | – | – | – |
| Geometric Relative Return v NAV | -2.02 | – | – | – | – | – | – | – | – | – | – |

*Source: Aberdeen & FTSE, figures to 28/02/2025*

**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 Aberdeen's Sustainable and Responsible Investment Approach are published at www.aberdeeninvestments.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 [www.aberdeeninvestments.com]. The Prospectus also contains a glossary of key terms used in this document.



Fund is traded on Deutsche Borse (Xetra), London Stock Exchange and SIX Swiss 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 Future Real Estate 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.aberdeeninvestments.com, the Manager, or the **Paying agent: EU/EEA territories:** europeanfacilitiesagent@carnegroup.com **UK facilities agent**: 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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