abrdn Global Real Estate Active Thematics (GREAT) UCITS ETF

Fund Update – July 2024

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

Please note that with effect from the 12th August 2024, the Fund changed name to become the abrdn Future Real Estate UCITS ETF.

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 underperformed its benchmark index, on a NAV basis, over the month (-0.52%).** Since inception (01/03/2023) to end July, the GREAT ETF NAV return was 5.81 % while the FTSE EPRA NAREIT Developed Net Index returned 6.24%.

- **Expectations of US interest rate cuts improved sentiment towards the real estate sector.** Previously unloved sectors which were trading at large discounts, such as US Suburban Offices, benefitted from improved flows therefore detracting from relative performance.

- **Growing expectations of interest rate cuts by the Reserve Bank of Australia aided performance for the region,** driving outperformance in the residential sector and stocks with higher leverage and REITs trading at outsized discounts.

- **We remain very positive about sectors with strong fundamentals, such as logistics, residential and its various subsectors, 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.

- As we move further into 2024, we anticipate that **the majority of the real estate pricing correction has played out at an all-property level. Indeed, some segments have seen valuation uplifts in the UK and Europe.**

Performance

The GREAT ETF underperformed its benchmark index, on a NAV basis, over the month (-0.52%) which has meant performance is now also behind the benchmark over the period since launch (-0.41%).

Fund Performance vs Benchmark	**1 Month (%)**	**3 Months (%)**	**Since Inception (% p.a.)***
Gross Daily Time Weighted Return	5.54	9.85	6.89
Share Price Return	6.51	9.70	6.72
NAV Return	5.48	9.56	5.81
FTSE EPRA Nareit Developed Net Return	6.03	10.03	6.24

Relative Performance vs Benchmark	**1 Month (%)**	**3 Months (%)**	**Since Inception (%)***
Geometric Relative Return v GDTW	-0.47	-0.16	0.61
Geometric Relative Return v Share Price	0.45	-0.30	0.46
Geometric Relative Return v NAV	-0.52	-0.43	-0.41

**Source: abrdn & FTSE, since inception figures from 01/03/2023 to 31/07/2024*

Notable Outperformers

AUD Diversified: The sector benefited from growing expectations of interest rate cuts, driving outperformance in stocks exposed to residential sectors, stocks with higher leverage and REITs trading at outsized discounts. In particular, Mirvac and GPT were outperformers.

US Strip Centre's: The sector outperformed in July on the back of both solid 2Q earnings reports that showed earnings growth coming in slightly better than expected. Additionally, rumours in the press that Blackstone was

Notable Underperformers

US Suburban Offices: The outlook for interest rate cuts in the US led to improving investor sentiment toward the real estate market, driving inflows into sectors like suburban offices which were trading at large discounts to NAV. As such, the Fund's underweight position in the sector was a drag on relative performance during the month as it outperformed the global index.

US Industrials: The Fund's underweight position in the sector was a drag on relative performance in July as the sector potentially interested in buying Retail Opportunity Investments, a west coast focused grocery anchored shopping centre landlord, highlighted the discounted valuations in the sector driving further outperformance.

Hong Kong Retail: The key driver of performance in this sector was the fund's lack of exposure to Wharf REIC, which underperformed on continued underperformance of Hong Kong's discretionary retail sector due to consumption leakage overseas and to the mainland.

rallied sharply following Prologis' 2Q earnings release. While the results showed continued slowing in market rent growth and lowered the expected pace of top line growth through 2026, the company maintained its full year earnings guidance assuaging some fears of a second reduction in as many quarters was possible.

Pan-Euro Logistics: Despite operating fundamentals holding up, the sector was used as a source of funds for investors seeking to rotate into more heavily discounted and interest rate sensitive sectors as they priced in the increased likelihood of rate cuts globally. As such, the Fund's overweight position was a drag on performance.

Market Overview

Europe

- Eurozone GDP expanded by 0.3% in the second quarter, with regional divergences. The German economy contracted more than anticipated, and survey data has since softened. Spain grew by 0.8% and France surprised to the upside with 0.3% on the quarter. The labour market remains tight, and the ECB's easing cycle should support demand and underpins our 0.8% GDP growth forecast for this year. Inflation rose to 2.6% YoY, with underlying pressures remaining elevated. The ECB paused its easing cycle in July, with two more rate reductions forecasted this year taking the ECB deposit rate to 3.25%.
- The outcome of the French parliamentary election has led to a hung parliament. The market reaction has been fairly muted. The spread between French bond yields and German bunds widened initially but has fallen back to less than 70 basis points as of 31st July. Looking at equities, the French CAC40 was down 6% over the month following the election vs. the wider Eurostoxx 50, down 1.9%. Over July, the CAC40 was marginally higher than the Eurostoxx 50 index on a relative basis.
- In real estate, we downgraded the outlook for France only modestly in our Q3 forecasts and so far we have not seen any sea-change in sentiment towards the French real estate market. French REITs are marginally down on the EU REIT index, underperforming by 2% since the initial vote on the 30th June.
- Liquidity in the European market is bottoming out but remains at low levels. Logistics, hotels and the residential sector are experiencing a rebound in activity, supported by portfolio deals. Yields have stabilised across 86% of the segments covered by CBRE with 2% of the markets starting to see yields fall again, with the student accommodation sector being one of the stronger performers.
- Our forecast for European direct real estate returns is increasing and now stands at 9.1% per annum on a three-year rolling basis, led by logistics, hotels and residential sectors. Central and Eastern European markets are expected to lag.

UK

- The Bank of England (BoE) voted narrowly to lower interest rates by 25bps to 5% at its meeting on August 1. The decision was very close, with four out of the nine policymakers voting to keep policy on hold. With such a close vote, it is unlikely that the BoE will now move to deliver a rapid and significant easing cycle. On balance, we expect two more cuts this year, followed by a further easing next year. However, risks are skewed towards slower and fewer cuts.
- Whilst one 25bps interest rate cut is unlikely to result in a sharp recovery in UK real estate values in the near-term, it will provide breathing space for some investors and likely result in an improvement in sentiment. The margin between real estate and the UK 10-year gilt has improved on the back of the news, whilst swap rates have also moved lower, which should translate into better financing rates.
- Investment volumes and liquidity is recovering, with Q2 investment volumes up 25% compared to the same period last year. This helped take investment volumes to end July 2024 to £23.5 billion, up 4% year-on-year. The living sector continues to attract the most capital, accounting for 21% of volumes YTD, closely followed by the industrial and logistics sector at 18%.

- With greater political stability and the BoE cutting rates from their 16 year high of 5.25%, we anticipate a more positive outlook for UK real estate. Indeed, capital value growth for UK real estate has been positive for three consecutive months according to the MSCI June monthly index. There remains polarisation at the sector level, with industrial, living and retail parks leading the way, whilst the office sector remains the laggard. We expect this trend to remain in place over our three-year forecast horizon.

US

- US growth appears to be moderating, but in a manner consistent with a soft landing. Inflation has also slowed in recent months with core PCE inflation increasing just 2.3% annualised over Q2. On the labour market side, with the Beveridge curve having normalized, any further softening in labour demand is likely to occur via job destruction rather than vacancies.
- Despite slowing construction, many major office markets still face the risk of churn. The supply-demand gap in multifamily is narrowing, with vacancy holding steady in Q2 2024 and nationally, rent growth seems to have found a floor at ~1%. There are signs of pickup in industrials tenant activity, but we remain cautiously optimistic as consumers struggle with rising credit card balances which could weigh on demand for distribution space.
- Deal volume for Q2 2024 remained somewhat flat, largely thanks to the take-private of AIR communities. Without that transaction Q2 2024 transactions would have been 13% down year over year. The RCA CPPI posted a 0% growth rate year-on-year which marks the end of 6 quarters of declines, but it is important to note that it was Industrial and retail assets which led price gains while other sectors continued to slip in price
- The outlook for US offices is still negative, effective rental growth will be weak as the availability of subleases continue forcing landlords to offer higher concessions to attract tenants. Multifamily performance will be stronger in East-Coast population hubs as we expect Sunbelt rent growth to continue struggling through to the end of this year. Nearshoring/Friend-shoring will benefit industrial and logistics markets surrounding the Gulf and East-Coast ports along with markets that have established intermodal terminals, such as Chicago and Dallas.

APAC

- A weak Q2 GDP print and the downward revision to Q1's print have prompted us to cut our 2024 forecast for China. The BOJ raised its policy rate by 25bp during the July meeting, which was more hawkish than market expectations. We now think the BOJ could hike its policy rate further in October to 50bp. Australia's labour market is still cooling too gradually but the weaker-than-expected Q2 CPI should keep the RBA on hold.
- The recovery in Tokyo's office occupier market continues as corporate profitability and hiring improve while new supply remains limited in 2024. Like other markets, performance bifurcation between newer and older buildings could widen. Singapore's prime retail rents continued to rise in Q2, but some concerns remain, including potentially higher spending leakage to JB. In HK, notwithstanding the spending leakage to Shenzhen, retail properties' occupier market has outperformed other sectors. The recovery though could be slowing.
- APAC's CRE transaction volume registered the third consecutive quarter of y-y growth in Q2, with Japan the most active market. Investors continue to favour Japanese hotels but the share price of Japanese hospitality REIT, Invincible, fell last month, following the announcement of its purchase of 12 hotels to be 57%-funded by new equity. Melbourne CBD's office occupier fundamentals remain weak, but investment activity appears to have picked up recently as sellers lower their price expectations.
- A more hawkish assessment of the pace of rate cuts will delay the recovery in APAC's direct commercial real estate investments. APAC's repricing lags other regions and most market/sectors are still valued at tight yield gaps, relative to history. We now expect a deeper trough and a longer recovery for APAC property values. Coupled with the growing bifurcation in occupier market fundamentals, we believe bottom-up market and stock selection will be key for investment performance.

Market Outlook

As we move further into 2024, we anticipate that the majority of the real estate pricing correction has played out at an all-property level. Indeed, some segments have seen valuation uplifts in the UK and Europe. As a result, the global real estate asset class has been upgraded from underweight to neutral in our June 2024 multi-asset global houseview. While this might seem a modest improvement, the clear message is that it's no longer beneficial to carry an underweight allocation to the asset class.

Expectations for capital values vary at a sector and regional level, with APAC being on a different path to the others for now. Assets in sectors that are unlikely to benefit from thematic tailwinds remain vulnerable. Poor-quality assets, where future retrofit costs are rising because of more onerous environmental legislation and high construction costs, 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 several times by sticky inflation and a hesitancy to ease policy, particularly in the US.

This cycle is notably different from the last because of one key factor: rental growth. In Europe, all property rents fell by 8.5% in the wake of the global financial crisis, yet they have increased by 8.6% since the onset of the recent downturn in June 2022. The pace of rental growth has slowed somewhat in recent quarters. But with supply generally limited, we believe there is strong potential for rents to rise in excess of the long-term average in the coming years.

Investment activity remains subdued, but there are signs that sentiment is improving towards certain areas of the market. We expect sentiment and activity to improve into 2025.

We remain very positive about sectors with strong fundamentals, such as logistics, residential and its various subsectors, retail warehouses, and some alternative sectors. Some higher-quality assets in central office segments are also beginning to look better relative value. Vacancies are low in these sectors as is future supply. Demand also remains strong and is benefiting from thematic tailwinds.

Expected returns are rising. We forecast a global all-property total return of 3.2% over the year to June 2025, and 6.6% and 7% per annum on a three- and five-year annualised basis, respectively. Risks are slowly ebbing and more attractive opportunities are emerging. For those with equity, opportunities to invest at attractive pricing points should emerge this year.

The UK and parts of Europe are expected to lead the recovery. APAC is experiencing a more muted cycle because of the Chinese real estate crisis and asymmetric Japanese monetary policy. The US recovery appears to be relatively more protracted now, given European central banks are leading the Fed in easing policy. 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 abrdn 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 abrdn'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 | abrdn
Global real estate market outlook Q1 2024 | abrdn
Insights and Research | Insights | abrdn
Global Real Estate Strategies (PDF)
Long Term Thematic Trend is Your Friend (PDF)

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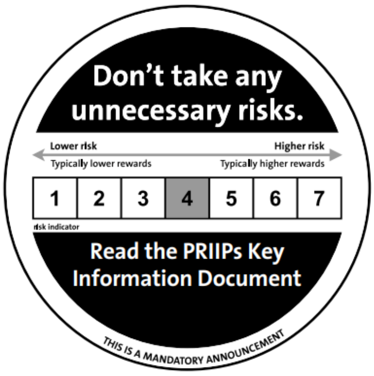
Discrete Annual Returns – Year to 31 July	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Gross Daily Time Weighted Return	6.12	-	-	-	-	-	-	-	-	-
Share Price Return	5.74	-	-	-	-	-	-	-	-	-
NAV Return	5.06	-	-	-	-	-	-	-	-	-
FTSE EPRA Nareit Developed Net Return	6.83	-	-	-	-	-	-	-	-	-

Relative Performance vs Benchmark	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Geometric Relative Return v GDTW	-0.66	-	-	-	-	-	-	-	-	-
Geometric Relative Return v Share Price	-1.02	-	-	-	-	-	-	-	-	-
Geometric Relative Return v NAV	-1.65	-	-	-	-	-	-	-	-	-

Source: abrdn & FTSE, figures to 31/07/2024

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 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]. 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

This information is intended to be of general interest only and should not be considered as an offer, investment recommendation or solicitation to deal in the shares of any securities or financial instruments. Subscriptions for shares in the fund may only be made on the basis of the latest prospectus, relevant Key Investor Information Document (KIID) or Key Investor Document (KID) as applicable and, in the case of UK investors, the Supplementary Information (SID) for the fund which provides additional information as well as the risks of investing. These may be obtained free of charge from abrdn. All documents are also available on www.abrdn.com.

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, 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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Before making an investment in the fund, investors should take steps to ensure that they fully understand the investment risks associated with the fund and have made an independent assessment of the appropriateness of an investment in the fund in light of their own objectives and circumstances.

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