For professional investors only.
Not for use by retail investors or advisers.

abrdn Global Real Estate Fund

The case for DC investment

November 2023

Fund overview

The abrdn Global Real Estate Fund aims to generate income and growth over the long term by investing in direct and listed real estate assets.

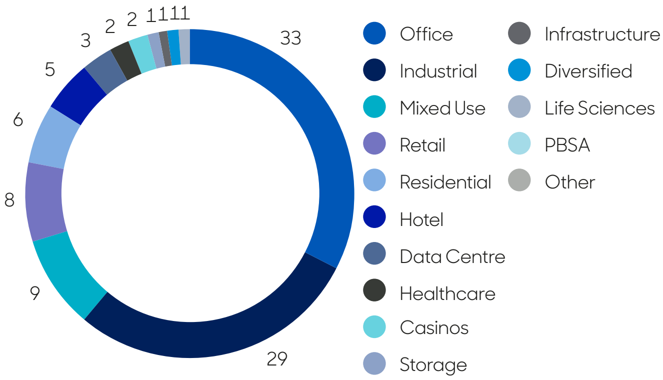
Thanks to its research-driven approach and hybrid investment strategy, we believe the Fund has the potential to achieve attractive returns over the long term and should reduce the risk of liquidity challenges when compared to a direct-only investment strategy.

abrdn.com

abrdn Global Real Estate Fund

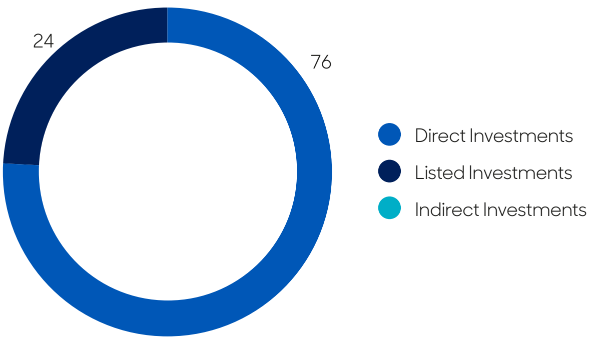
The case for DC investment

Sector (%)



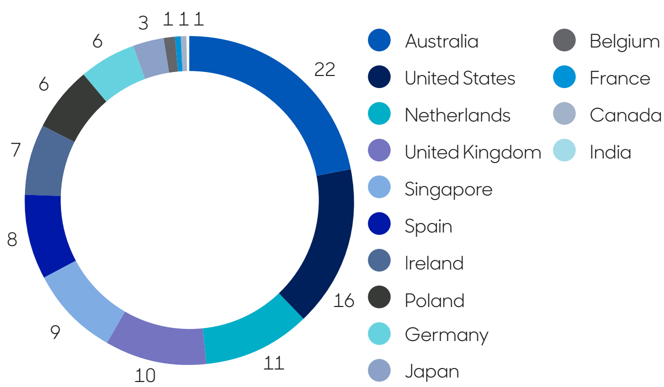
Source: abrdn, 31 August 2023, figures shown excluding cash.

Asset Type (%)



Source: abrdn, 31 August 2023, figures shown excluding cash.

Country (%)



Source: abrdn, 31 August 2023, figures shown excluding cash.

Fund summary

The Fund invests predominantly in direct real estate assets in key global gateway cities. It also offers highly differentiated exposure to a broad range of underlying assets via the listed real estate market.

1. **Broad investment universe –** thanks to the Fund's international remit, the manager can select assets from a large investment universe. This increases the potential for consistent performance through all stages of the real estate cycle.
2. **Enhanced portfolio diversification –** the Fund's global portfolio offers a compelling combination of direct and indirect real estate investments. This hybrid approach can enhance diversification and potentially reduce risk.
3. **Research-driven –** abrdn's unique and proprietary global real estate HouseView benefits from a >70% strike rate[1].
4. **ESG embedded –** environmental, social and governance (ESG) considerations are embedded throughout our decision-making and asset management processes.
5. **Global real estate platform –** the Fund benefits from abrdn's multi-disciplinary global real estate platform, which offers significant scale and reach with on-the-ground presence across global markets.

[1] More than 72% of the 525 sector recommendations that have been made across the four regions (UK, Europe, APAC & North America) between 2004 – 2022 have correlated with outperformance relative to the respective regional benchmark in the case of overweight recommendations, and underperformance where an underweight.

Key considerations for DC investors in the UK when it comes to their real estate allocations:

1. **Concerns around fund suspensions.**
2. **A preference to diversify holdings internationally.**
3. **How best to utilise the global real estate securities market.**
4. **What is the most appropriate structure/fund wrapper?**

1. Concerns around fund suspensions

Most open-ended UK direct real estate funds that are sold to retail investors suspended trading following the EU referendum result in June 2016 because of liquidity pressures.

These funds suspended dealing for several months while they sold direct property assets to replenish their cash buffers. A further round of fund suspensions occurred at the onset of the COVID-19 pandemic, however, these suspensions were driven by valuation uncertainty, as opposed to liquidity. The global valuation community inserted material valuation uncertainty clauses into their valuation statements in Q1 2020, stating that it was not possible to provide accurate and reliable valuations for direct property assets because of the disruption caused by the COVID-19 pandemic. The inclusion of these clauses made it impossible to accurately price these open-ended real estate funds, forcing a valuation-driven suspension until the material valuation uncertainty clauses were removed later that year. More recently, open-ended institutional UK property funds, which are widely held by defined benefit (DB) pension funds, were forced to defer redemptions following a spike in withdrawal requests after the mini budget in September 2022. These DB pension funds had to trim their UK property allocations to rebalance their portfolios, having sold large volumes of liquid assets to raise cash in very short order.

abrdn Global Real Estate Fund's record

The abrdn Global Real Estate Fund did not suspend dealing in 2016 following the EU referendum result as investors benefitted from the enhanced levels of geographic diversification within the Fund. Given its hybrid remit, and in particular its allocation to listed real estate securities, the Fund also benefits from a structurally higher level of liquidity when compared to a direct-only real estate strategy. The abrdn Global Real Estate Fund has never had to suspend dealing for liquidity reasons since its launch in October 2005.

Given the global nature of the COVID-19 pandemic and the fact that the material valuation uncertainty clauses were applied across all global real estate markets, the abrdn Global Real Estate Fund was forced to suspend dealing in March 2020 due to valuation reasons. Dealing resumed later that year when transactional evidence returned to the market and the valuation clauses were removed.

2. A preference to diversify holdings internationally.

A large domestic bias exists when it comes to real estate investing, with most investors preferring to allocate to their home market as opposed to diversifying overseas. According to MSCI, the UK only accounts for about 6% of the global investable real estate universe. It's therefore worth investors considering diversifying their real estate exposure just as with other asset classes.

We believe there are two reasons for domestic real estate bias on the part of UK defined contribution (DC) investors in the UK. Firstly, the perception that investing outside your domestic market is high risk, and secondly, the lack of choice when it comes to vehicles investing in international direct real estate assets.

The case for world-wide investing with the abrdn Global Real Estate Fund

The abrdn Global Real Estate team consists of more than 300 investment professionals based in 13 office locations. Not only do we have investment managers and asset managers within the team, but we also have specialist expertise in transactions, development, ESG (environmental, social and governance), tax and structuring experts - especially important when investing outside your domestic market.

We also benefit from a dedicated Global Real Estate Research and Strategy team, covering 28 global markets and more than 280 market segments. The Global Real Estate Research and Strategy team have been producing a proprietary Global HouseView on a quarterly basis since 2006 and have a proven track record in terms of their conviction calls with a strike rate in excess of 70% over this period.

In terms of risk profile, the abrdn Global Real Estate Fund looks to provide investors with exposure to a portfolio of high-quality, institutional-grade commercial real estate assets aligned with the highest conviction calls that have been identified by our Global Real Estate Research team. The Fund is positioned in the core/core-plus space, targeting through-the-cycle, attractive risk-adjusted returns and aims to generate a return of 5% per annum over rolling three-year periods, after charges.

The Fund targets a higher and more persistent weight in direct assets, typically towards the top end of the 50%-80% range, to offer investors a more stable mix of assets, lower volatility in the Fund's price movements and the potential for a higher income yield. The Fund's direct real estate assets are hedged back to Sterling to reduce the impact that adverse currency movements can have on risk-adjusted returns. A Sterling-based investor is therefore hedged for about 80% of their overall exposure.

With regards to the available investment universe for DC investors, we believe the Fund is unique in that it is the only open-ended, daily traded vehicle in the UK that offers exposure to a portfolio of predominantly direct real estate assets globally. We are not aware of any other real estate vehicle available to DC investors in the UK that can offer the same level of global diversification through direct real estate.

As at the end of August, the Fund was diversified across 14 countries with exposures across the Americas, Europe, and Asia Pacific. The Fund has minimal exposure to the UK. This ensures it can act as a strong complement to an existing UK commercial real estate allocation, or indeed a UK residential allocation which is typically where the bulk of a DC investor's wealth is currently stored via their primary residence.

Whilst the Fund can invest in the UK, it is the Fund Manager's intention to retain a globally diversified strategy that is highly diversified by country, sector, and asset type.

3. How best to utilise the global real estate securities market

Global real estate securities are an efficient and effective way of enhancing overall levels of liquidity and diversification when it comes to real estate allocations. We have witnessed an uptick in investor appetite in this space of late, particularly given the challenges that open-ended UK direct real estate funds have faced over recent years. That said, investing entirely in listed real estate securities for your whole real estate allocation could lead to more volatile outcomes given the equity market risk premium associated with these investments.

The benefit of the abrdn Global Real Estate Fund's hybrid approach

The abrdn Global Real Estate Fund is a globally diversified hybrid real estate strategy that invests in both global direct real estate and indirect real estate via global real estate securities. The Fund looks to position itself with a higher and more persistent weight in direct real estate assets, typically towards the top end of the 50-80% internal range, with the remainder held in global real estate securities.

While the global real estate securities allocation can enhance overall portfolio liquidity, it also brings additional benefits to investors in terms of providing fast and efficient access to markets and sectors that are more difficult to access on a direct basis. The global real estate securities allocation, for example, provides the Fund with tax-efficient access to the commercial real estate market in the United States. If the Fund were to invest in the United States on a direct basis, then it would be severely penalised from a tax perspective given the Fund is domiciled in the UK. Investing via real estate securities ensures the Fund can gain exposure to this established real estate market, and therefore provides investors with even greater levels of geographic diversification. The real estate securities portfolio can also provide access to some of the alternative sectors of the commercial real estate market that are harder to access directly given the lack of stock, or perhaps the more specialist expertise required to manage assets of this nature. For example, the Fund can further diversify its exposures by investing in specialist operators in niche sectors such as Data Centres, Life Sciences, Storage and Healthcare.

Another of the key benefits of the allocation to listed real estate, and the hybrid approach, is that it is possible to tactically flex exposures between public and private real estate depending on the market environment. This can bring arbitrage opportunities to investors given the different valuation methodologies and the speed at which valuations are reflected in underlying pricing. We believe that the hybrid approach offers investors the best elements of both direct and indirect real estate investing.

4. What is the most appropriate structure / fund wrapper?

Structuring issues have often been seen as prohibitive when it comes to combining DC investors with other pools of capital, such as institutional buyers. This is predominantly driven by differing fund structures and constraints in terms of investor eligibility, but also in terms of liquidity requirements and higher dealing frequencies needed for the likes of DC investors.

The asset class has experienced issues in the past when a fund's investor base has been dominated by a certain type of client, i.e., DB pension schemes causing huge liquidity strains on UK institutional funds following the September 2022 mini-budget. A well-diversified investor base has the potential to help minimise contagion risks.

The case for the abrdn Global Real Estate Fund

The abrdn Global Real Estate Fund is structured as an authorised UK unit trust which is readily available to a wide range of client types, including DC investors and institutional capital.

The Fund's hybrid structure allows for enhanced levels of liquidity not normally associated with real estate investing, therefore providing efficient access for investors should they wish to trade in and out of the vehicle on a more frequent basis. This liquidity is particularly important for clients as it typically means that investments and withdrawals can be actioned without necessarily the need to alter the direct portfolio composition, which is more time-consuming and costly and could have performance implications.

Important Information

The value of investments and the income from them can fall and investors may get back less than the amount invested.

The above marketing document is strictly for information purposes only and should not be considered as an offer, investment recommendation, or solicitation, to deal in any of the investments mentioned herein and does not constitute investment research.

abrdn does not warrant the accuracy, adequacy or completeness of the information and materials contained in this document and expressly disclaims liability for errors or omissions in such information and materials.

Any research or analysis used in the preparation of this document has been procured by abrdn for its own use and may have been acted on for its own purpose. The results thus obtained are made available only coincidentally and the information is not guaranteed as to its accuracy. Some of the information in this document may contain projections or other forward looking statements regarding future events or future financial performance of countries, markets or companies.

These statements are only predictions and actual events or results may differ materially. The reader must make their own assessment of the relevance, accuracy and adequacy of the information contained in this document and make such independent investigations, as they may consider necessary or appropriate for the purpose of such assessment.

This material serves to provide general information and is not meant to be investment, legal or tax advice for any particular investor. No warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the reader, any person or group of persons acting on any information, opinion or estimate contained in this document.

abrdn reserves the right to make changes and corrections to any information in this document at any time, without notice. This material is not to be reproduced in whole or in part without the prior written consent of abrdn.

Investors should be aware of the following risk factors:

*Commercial property is less liquid than other asset classes such as bonds or equities. Selling property can be a lengthy process so investors in the fund should be aware that they may not be able to sell their investment when they want to.

*Commercial property transaction charges are higher than those which apply in other asset classes. Investors should be aware that a high volume of transactions would have a material impact on fund returns.

*Property valuation is a matter of judgment by an independent valuer and is therefore a matter of the valuer's opinion rather than fact.

*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.

*Dividend payment policies of the REITs in which the fund invests are not representative of the dividend payment policy of the fund. 2The fund invests in emerging market equities and/or bonds.

*Investing in emerging markets involves a greater risk of loss than investing in more developed markets due to, among other factors, greater political, tax, economic, foreign exchange, liquidity and regulatory risks.

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

*The fund employs a single swinging pricing methodology to protect against the dilution impact of transaction costs. Due to the high transaction charges associated with the fund's assets, a change in the pricing basis will result in a significant movement in the fund's published price.

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. The fund could lose money if an entity (counterparty) with which it does business becomes unwilling or unable to honour its obligations to the fund.

In extreme market conditions some securities may become hard to value or sell at a desired price. This could affect the fund's ability to meet redemptions in a timely manner. The fund could lose money as the result of a failure or delay in operational processes and systems including but not limited to third party providers failing or going into administration.

abrdn Investment Management Limited is registered in Scotland (SC123321) at 1 George Street, Edinburgh EH2 2LL. Authorised and regulated by the Financial Conduct Authority.

For more information visit abrdn.com

AA-131023-169460-1

STA1023600480-001