SFP
SFP Investment Foundation

31 December 2023

SFP AST Global Core Property Hedged CHF

Class A - 909.11 / Class B - CHF 915.75 / Class C - CHF 918.81 / Class X - CHF 920.91

Description

SFP AST Global Core Property Hedged CHF offers Swiss pension funds access to a global portfolio of open-ended, non-listed core property real estate funds. Its focus lies on strong cash flow, strategic diversification enabled through active portfolio management, and sustainability.

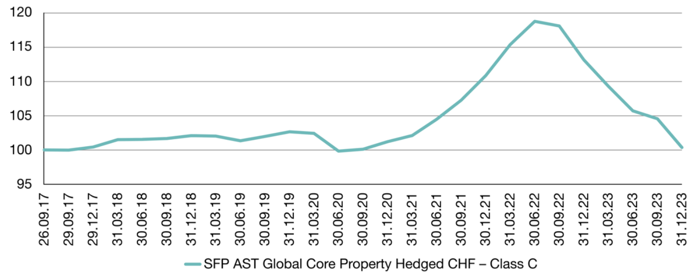
Key Facts

Legal form	Swiss Investment Foundation – the investment group falls under the category 'foreign real estate' (article 53, paragraph 1, letter c, BVV 2)
Investment manager	Swiss Finance & Property Ltd
Depositary bank	Credit Suisse (Schweiz) AG
Investment strategy	Core
Fund structure	Open-ended
Liquidity	Quarterly
Regional exposures	Global (excl. Switzerland)
Sector exposures	Residential, industrial/logistics, office, retail, other
Launch date	September 2017
Currency	CHF
Foreign currency hedging	Investors have the option to invest in a hedged or an unhedged investment group
Leverage	No leverage at the investment group level
TER KGAST (2022)	1.20% - 1.84%
Next subscription/redemption	Closing: 31 March 2024 (value date) Capital commitment/redemption: 11 March 2024
Subscription/redemption thereafter	Closing: 30 June 2024 (value date) Capital commitment/redemption: 10 June 2024
Notice period	12 months

Portfolio Key Figures

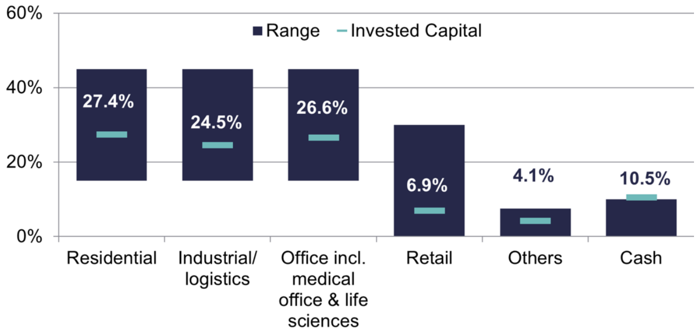
Total assets of the investment groups	178.1
Number of funds (committed)	16
Number of funds (invested)	15
Number of underlying properties	1714
Gross asset value of underlying properties (in CHF bn)	92.9
Occupancy rate (in %)	93.6
WAULT (in years)	6.0
Leverage (% of GAV)	23.2

Performance (net total return)

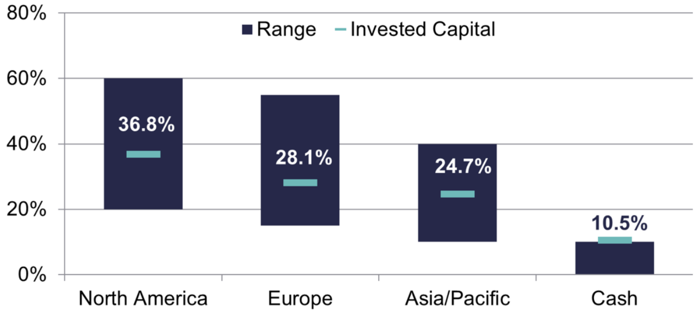


	YTD	3 M	1 yr	3 yr (p.a.)	5 yr (p.a.)	Since launch (p.a.)
Class A	-12.75%	-4.08%	-12.75%	-0.83%	-0.67%	-0.20%
Class B	-12.56%	-4.02%	-12.56%	-0.62%	-0.45%	0.01%
Class C	-12.51%	-4.01%	-12.51%	-0.56%	-0.40%	0.06%
Class X	-12.18%	-3.92%	-12.18%	-0.19%	-	-0.34%

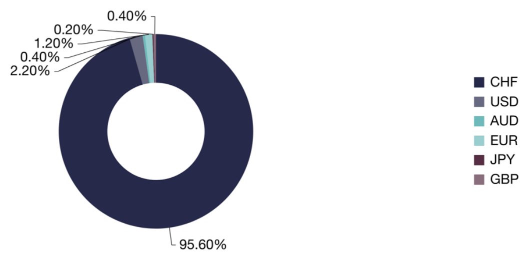
Sector Exposures



Regional Exposures



Currencies



SFP AST Global Core Property Hedged CHF

Portfolio Manager Report Q4 2023

Current Environment

The prevailing economic outlook points toward several interest rate cuts next year, expected to commence in the second quarter, with the ECB forecasted to move first. These projection hinge on further deceleration in inflation metrics towards target levels and weakening labour markets. Greater clarity around these cuts should kickstart real estate transactions, which ticked up over the quarter, indicative of a narrowing in buyers and sellers' pricing expectations. Despite the continued yield expansion, the outlook for 2024 and the following years remains positive. Real estate yields have moved to appealing levels, offering attractive spreads to other asset classes. Moreover, construction starts remain deflated, due to heightened financing and construction costs. This is expected to restrict future supply over the coming years. These factors, coupled with solid real estate fundamentals in the core space, present an appealing entry opportunity for the international real estate markets.

Sectoral Update

The rental residential sector is being supported by elevated mortgage rates, robust property prices, and wage growth. A stark undersupply in Europe and the APAC region persists, yet certain U.S. markets are witnessing an influx of supply, leading to a moderation in rental growth. This is anticipated to have a short-term impact. The longer-term outlook for the sector remains positive on a global scale as lower construction starts should result in an imbalance in supply and demand dynamics.

The logistics sector is marked by sustained rental growth, driven by strong demand for modern and well-located assets. While rental growth is normalizing from record highs, occupancy rates remain steady, hovering around historical averages. The sector anticipates a boost from forecasted e-commerce growth and is presenting robust mark-to-market opportunities. Overall, logistics is navigating a landscape of evolving demand dynamics and adapting to the changing needs of the market.

Office properties faced the highest depreciation rates during the quarter, as they wrestled with higher vacancies driven by the widespread adoption of remote work. We are yet to see encouraging signs in the US. Globally, a clear divergence in demand persists between prime and secondary stock. Europe and the APAC region have experienced greater resilience in the office space than the US, attributed to lower rates of home office adoption.

Retail assets face a long-term hurdle in increasing online commerce. While the sector continues to present attractive yields on both a historical and relative basis, it is also contending with diminishing wage growth and consumer demand. Nevertheless, limited supply levels of new retail space are expected to, at least partially, alleviate any potential impact of these factors.

The alternative sectors have displayed sustained outperformance during this downturn, particularly notable in the United States, owing to robust supply-demand relationships. Both the student and senior housing sectors reported strong rental growth in 2023. The self-storage, medical office and life sciences sectors saw slight upticks in vacancies during the year, yet this is expected to reverse due to the limited development pipeline. Moreover, occupancy rates across these three subsectors sit above historical averages, with medical offices registering strong rental growth.

Regional Update

North America:

GCP was invested in six funds in the US at the end of Q4 2023, for which net total returns ranged between -3.4% and -5.2% in the quarter. The US alternatives real estate fund achieved the highest quarterly return, driven by strong demand for its target sectors and continued rental growth, which helped to offset yield softening. For example, its student housing portfolio experienced 8% rental growth in 2023. The lowest return was reported by the specialized residential fund, as valuers began moving cap rates above 5%. A wave of residential supply reaching completion in the sunbelt markets has shifted power from landlords to tenants. Despite this, new building starts have declined drastically, which should limit supply going forward and re-shift the bargaining power in favour of landlords again.

Europe:

GCP was invested in four funds in Europe as at the end of Q4 2023, for which net total returns were between -2.3% and -6.7% over the quarter. The UK residential fund once again achieved the highest quarterly returns in our European portfolio due to lower yield expansion and strong rental growth. The fund's portfolio maintained its high occupancy rate of 97% and the manager continues to push headline rent levels. Moreover, a stark undersupply still exists in the UK residential market. A diversified pan-European fund delivered the lowest return this quarter, attributed to office assets in Paris and Munich, for which expected rents have been discounted by valuers. The residential and logistics sectors recorded lower levels of depreciation. Retail experienced further yield expansion, yet it was counterbalanced in some cases through positive leasing and upward revision of expected rental values.

APAC:

The group was invested in five funds in the Asia-Pacific region as at the end of Q4 2023, for which net total local currency returns were between -0.1% and -1.9% for the quarter. A pan-APAC diversified fund achieved the greatest return for the quarter. The fund secured solid rental growth of 4.4% at both a logistics asset in Japan and retail asset in South Korea. This, alongside lighter rental growth at other assets, nearly outweighed yield softening, which was mainly experienced at office assets in Australia. Another pan-APAC diversified fund and the Australian healthcare fund realized the lowest returns in Q4, driven by capital and discount rate expansion. Light depreciation was generally witnessed across the traditional and healthcare sectors.

Performance

SFP AST Global Core Property Hedged CHF achieved net total returns of -4.08% (class A), -4.02% (class B), -4.01% (class C) and -3.92% (class X) for Q4 2023. The total hedging cost amounted to 0.71% for the quarter.

Portfolio initiatives

During the quarter, we made a commitment to a European logistics fund and our capital was called in Q1 2024. We seek to profit from the fund's high-quality portfolio and strong reversionary rental potential. The long-term forecast for the European logistics sector is favourable, due to tight vacancy levels, expected e-commerce growth, and strong demand for modern, well-located space. These factors, in conjunction with the attractive pricing level of the sector, should drive future returns. We submitted redemptions to two diversified pan-European funds, as we aim to optimize our blend of diversified and sector-specialist funds and enhance our allocations to logistics, residential and alternatives in our European portfolio. We are currently evaluating opportunities in the logistics sector in the APAC region and the alternative sectors in Europe.

Conclusion

Despite the substantial adjustment in international real estate valuations due to higher interest rates, core real estate has sustained its robust fundamentals, marked by solid financing and leasing profiles. Moreover, high construction and financing costs continue to stunt development starts, and this trend is poised to drive property prices and rents in the coming years. Additionally, the forecasted interest rate cuts should catalyze the onset of a new real estate cycle in 2024. Thus, an opportune entry window to harness real estate yields at levels not witnessed since the global financial crisis currently exists.

Additional information

The investment group prospectus was updated in January 2024. This version can be found and is available for download at SFP AST Global Core Property Hedged CHF

SFP AST Global Core Property Hedged CHF

Class A - 909.11 / Class B - CHF 915.75 / Class C - CHF 918.81 / Class X - CHF 920.91

Head Client Relationship Management & Marketing

Dr Patrick Sege Seefeldstrasse 275 | 8008 Zürich | sege@sfp.ch | +41 43 344 74 78 | www.sfp.ch