SFP

SFP Investment Foundation

31 March 2024

SFP AST Global Core Property Hedged CHF

Class A - 891.40 / Class B - CHF 898.38 / Class C - CHF 901.50 / Class X - CHF 904.38

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.

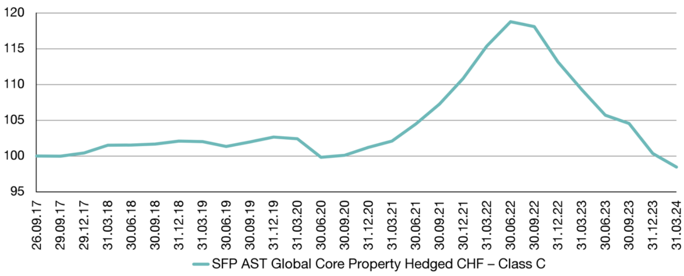
Key Facts

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 2023	1.96% (Class A); 1.74% (Class B); 1.69% (Class C); 1.48% (Class X)
Next subscription/redemption	Closing: 30 June 2024 (value date) Capital commitment until 30 June 2024; redemption until 10 June 2024
Subscription/redemption thereafter	Closing: 30 September 2024 (value date) Capital commitment until 30 September 2024; redemption until 10 September 2024
Notice period	12 months
ISIN	CH0370142694 (Class A) CH0370142728 (Class B) CH0370142736 (Class C) CH0370143023 (Class X)

Portfolio Key Figures

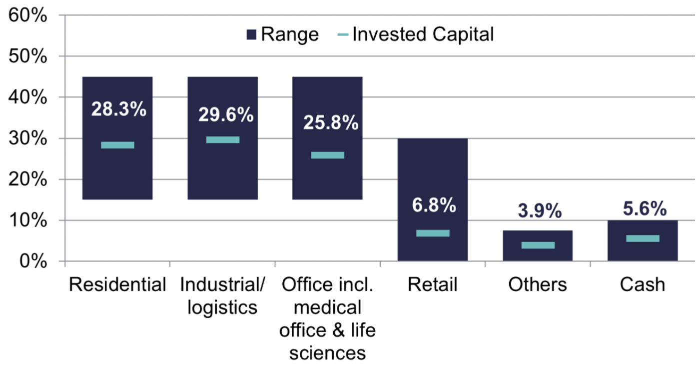
Total net asset value of the investment groups (in CHF mn)	183.6
Number of funds (committed)	16
Number of funds (invested)	16
Number of underlying properties	2396
Gross asset value of underlying properties (in CHF bn)	113.0
Occupancy rate (in %)	93.6
WAULT (in years)	5.7
Leverage (% of GAV)	25.4

Performance (net total return)

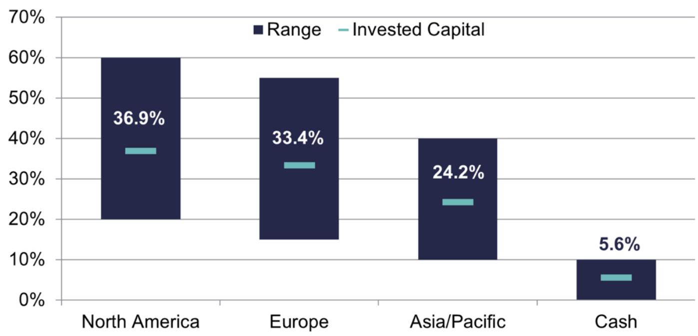


	3 M	YTD	1 yr	3 yr (p.a.)	5 yr (p.a.)	Since launch (p.a.)
Class A	-1.95%	-1.95%	-11.44%	-1.76%	-1.05%	-0.50%
Class B	-1.90%	-1.90%	-11.25%	-1.55%	-0.83%	-0.29%
Class C	-1.88%	-1.88%	-11.20%	-1.50%	-0.78%	-0.23%
Class X	-1.79%	-1.79%	-10.87%	-1.13%	N/A	-0.76%

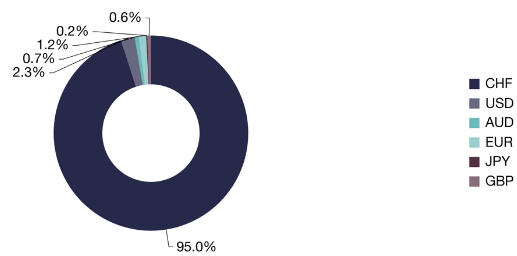
Sector Exposures



Regional Exposures



Currencies



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Portfolio Management Report Q1 2024

Current Environment

Throughout the quarter, inflation and other economic data led to downward revisions in anticipated interest rate cuts. However, inflation figures are approaching target levels and rate cuts are still expected to occur throughout the remainder of the year. The European Central Bank (ECB) commenced their cutting schedule in June, and the US and UK are expected to follow in Q3, with Australia thereafter. Compared to a year ago, the picture and outlook global real estate has certainly improved, as the consensus now indicates that peak policy rates have been reached and that rate cuts are imminent. Increased optimism is reflected in investor surveys. While real estate yield expansion still took place in Q1, albeit at a slower pace than in the previous quarter, there were resilient pockets in Europe, suggesting that prices are bottoming out in certain markets. Additionally, the decline in construction starts, driven by high financing and construction costs, strengthens the case for core real estate strategies. Favorable yield spreads compared to other asset classes and promising rental growth opportunities further enhance the asset class's appeal.

Sectoral Update

The rental residential sector continues to experience high demand on a global scale, driven by elevated mortgage rates and property prices. Key markets across the US, Europe, and the APAC region are significantly undersupplied. However, some markets in the US, particularly in the Sunbelt region, are experiencing a short-term spike in supply. This is due to a large number of developments that were initiated during the pandemic to cater for an influx of new residents driven by the remote-working trend. This new supply is expected to have short-term implications, as construction starts have dropped substantially. The decline in new construction is anticipated to restore the balance between supply and demand in the US next year.

Solid rental growth has persisted in the logistics sector, fuelled by strong demand for modern and well-located assets. The sector is expected to benefit from projected e-commerce growth and presents a compelling opportunity in the form of mark-to-market rent adjustments. Although rental growth is gradually returning to normalized levels from record highs, portfolio occupancy rates remain high. In the US, the picture is more nuanced, as supply remains high compared to historical levels and demand has softened in certain markets. Again, a stark drop in construction starts (reaching a nine-year low) should help balance supply and demand after the current wave of supply is absorbed this year.

Office properties continue to experience the highest depreciation rates, driven by persistent lower demand due to the widespread adoption of remote work and downsizing in office space. There is a clear divergence in demand between prime and secondary stock. Europe and the APAC region have shown greater resilience in the office space, largely due to lower rates of home office adoption. In contrast, the US faces significant challenges, with the national office vacancy rate hovering around historic peaks. GCP remains well-protected, as its US office allocation is low (2.7%).

Retail fundamentals remain strong, as occupancy rates remain elevated. This is due to an extended period of lower supply levels and a recovery in tenant demand, with net absorption exceeding new supply for over two years. Despite this, the sector continues to face long-term challenges from the growth of online commerce. While it offers attractive yields both historically and relatively, it is threatened by a potential cooling in wage growth and consumer spending. Nevertheless, the limited supply of new retail space is expected to partially mitigate the potential impact of these factors.

Certain alternative sectors have demonstrated sustained outperformance during this downturn, particularly in the student and senior housing sectors, due to healthy rental growth. The student housing sector is on track to record strong rental growth for the next academic year. While the self-storage, medical office, and life sciences sectors have seen upticks in vacancies, this trend is expected to reverse due to limited development pipelines. Moreover, we continue to witness solid NOI growth for high-quality, well-located assets owned by experienced managers within these sectors.

Regional Update

North America:

GCP was invested in six funds in the US at the end of Q1 2024, for which net total returns ranged between -0.86% and -2.85% in the quarter. A diversified US fund was the outperformer this quarter due to its lower depreciation and above average income returns, both exceeding the NCREIF-ODCE index by 1.57% and 0.14%, respectively. The fund was proactive in writing down its assets in 2023 and has an underweight to the office sector, which resulted in lower depreciation for the quarter. Another diversified US fund recorded the lowest quarterly return, predominantly due to depreciation in the office sector. The fund's capital depreciation was, however, largely in-line with the NCREIF-ODCE index's quarterly depreciation.

Europe:

GCP was invested in five funds in Europe as at the end of Q1 2024, after having invested in a European logistics fund during the quarter. Net total returns ranged between 0.10% and -3.10% over the quarter. The European logistics fund was the top performing fund in the quarter, due to minimal cap rate expansion in the logistics sector across Europe, strong income returns and continued rental growth. A diversified European fund achieved the weakest returns this quarter. This was mainly due to continued depreciation, primarily in the office sector. Encouragingly, the fund saw its supermarket and alternatives portfolios valued higher for the quarter.

APAC:

The group was invested in five funds in the Asia-Pacific region as at the end of Q1 2024, for which net total local currency returns were between 1.00% and -1.34% for the quarter. A diversified pan-Asian fund achieved the highest local currency return. The fund's strong performance was driven by capital appreciation in the residential, office and healthcare sectors. An Australian healthcare fund registered the lowest return due to further cap and discount rate expansion across the portfolio, as real estate yields in Australia continue to adjust to the higher interest rate environment.

Performance

SFP AST Global Core Property Hedged CHF achieved net total returns of -1.95% (class A), -1.90% (class B), -1.88% (class C) and -1.79% (class X) for Q1 2024. The total hedging cost amounted to 0.77% for the quarter.

Portfolio initiatives

During the quarter, the group's commitment to a European logistics fund was fully called. The team conducted work on two European funds that in invest in alternative real estate in Europe, as it sees an opportunity to benefit from attractive supply/demand fundamentals, high income returns, and forecasted rental growth, particularly in the student housing sector. Moreover, the team continues to work on investment opportunities in the APAC region, namely a specialized pan-Asian logistics fund and a diversified pan-Asian fund with high allocations to the logistics and residential sectors. The team aims to build out its allocation to the APAC region over the long-term to profit greater forecasted growth rates, the expansion of the middle class, urbanization, and increasing e-commerce penetration rates.

Conclusion

Despite significant adjustments in international real estate valuations driven by higher interest rates, the core real estate space continues to display strong fundamentals, characterized by high occupancy rates, strong demand, and conservative financing profiles. Elevated construction and financing costs are hindering new development projects, a trend expected to exert upward pressure on property prices and rents in the foreseeable future. Additionally, anticipated interest rate cuts are poised to kickstart new real estate cycles in 2024 across the three regions. These factors create a unique opportunity to capitalize on real estate yields not seen since shortly after the global financial crisis.

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