



Fund Commentary

United Asia Pacific Real Estate Income Fund

December 2022

Why Invest?

- Emerging opportunities in the Asia Pacific (APAC) real estate:** Opportunity to leverage the structural and secular growth in key APAC real estate markets including Japan and Australia.
- Stable income and returns:** A good investment tool for investors seeking regular income. REITs are required to distribute at least 90 percent of its taxable income as dividends to its shareholders annually.
- Continued dividend growth:** Asia Pacific REITs average forward distribution yield of 4.2 percent is attractive. Distribution per unit is expected to continue to grow at above-trend levels over the next two years.
- Compelling valuations:** Valuations of APAC REITs have largely discounted rising interest rates. The average forward price-to-book ratio at 0.91x is below the trough valuation during the 2017/2018 interest rate hike cycle.
- Balance of defensive and growth REITs:** The Fund invests in a diversified portfolio of REITs with resilient assets through the property cycle. They help generate a steady rental stream during the cyclical downturn and asset capital values during an upcycle.

Investment Objectives

The investment objective of United Asia Pacific Real Estate Income Fund is to seek total return consisting of income and capital appreciation over the medium to long term by investing primarily in Real Estate Investment Trusts (REITs) listed in the Asia Pacific region (including Japan, Australia and New Zealand)..

Fund Information

Morningstar Rating

★★★★

Fund Size

SGD 25.82 mil

Base Currency

SGD

Fund Manager

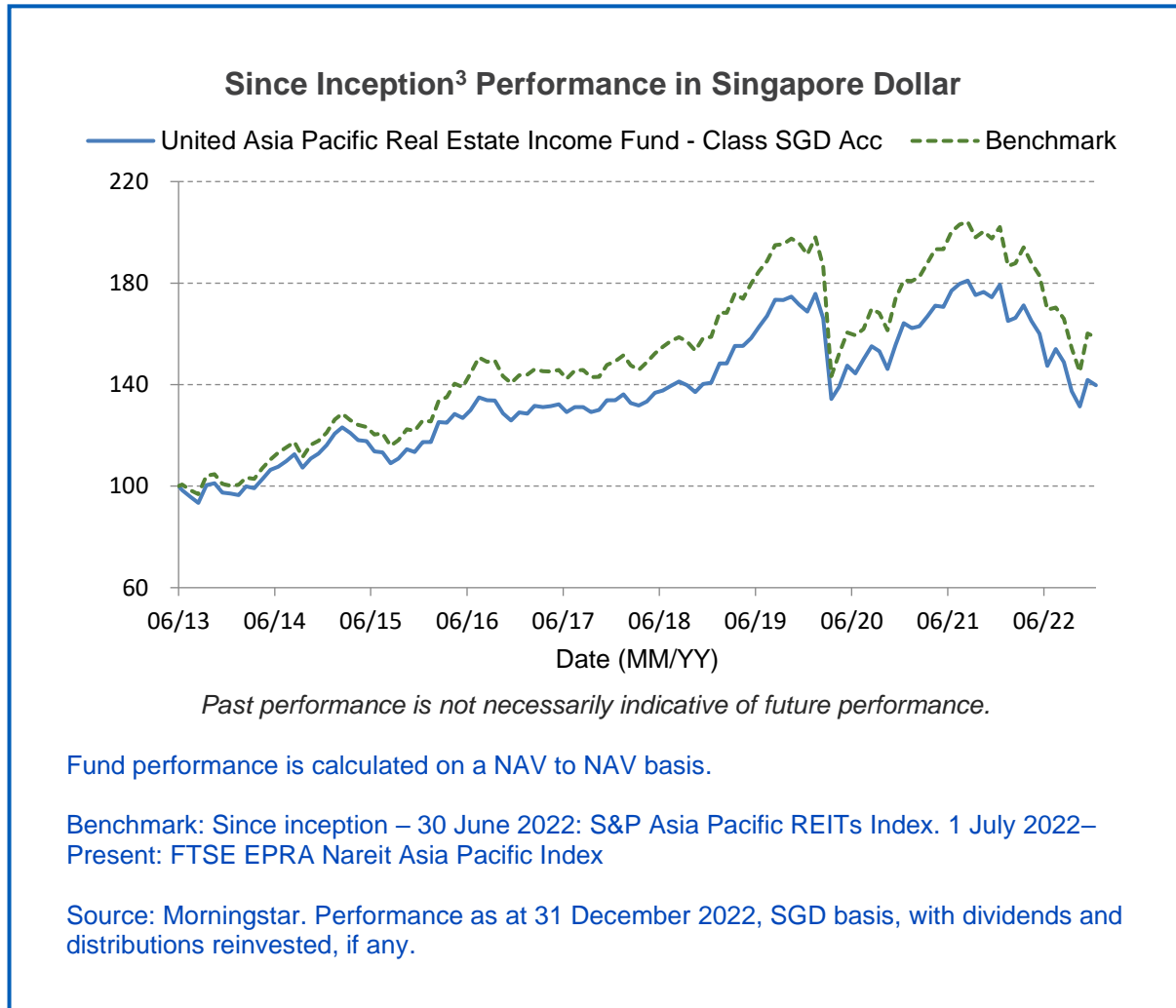
Low Soo Fang



One Month Portfolio Review

For the month of December 2022, the United Asia Pacific Real Estate Income Fund – SGD Acc (the “Fund”) was down -1.48¹ percent. Its benchmark, FTSE EPRA Nareit Asia Pacific Index decreased by -0.95² percent.

Historical Performance



¹ Source: Morningstar, Performance from 30 November 2022 to 31 December 2022 in SGD terms, on a Net Asset Value (“NAV”) basis, with dividends and distributions reinvested (if any).

² Source: Morningstar, Performance from 30 November 2022 to 31 December 2022 in SGD terms.

³ The United Asia Pacific Real Estate Income Fund – SGD Acc (ISIN Code: SG9999009997) and SGD Dist (ISIN Code: SG9999010052) were inceptioned on 17 June 2013.

All statistics quoted in the write-up are sourced from Bloomberg as at 31 December 2022 unless otherwise stated.



Annualised and Cumulative Returns

Performance (Class SGD Acc)

	Cumulative Performance (%)	Annualised Performance (%)			
	1 month	1 Year	3 Years	5 Years	Since Inception
Fund NAV to NAV	-1.48	-22.03	-6.09	0.87	3.57
Fund (Charges applied^)	-6.41	-25.93	-7.68	-0.16	3.02
Benchmark	-0.95	-21.54	-6.05	1.22	4.95

Source: Morningstar. Performance as at 31 December 2022, SGD basis, with dividends and distributions reinvested, if any. Performance figures for 1 month till 1 year show the percent change, while performance figures above 1 year show the average annual compounded returns. Benchmark: Since inception – 30 June 2022: S&P Asia Pacific REITs Index. 1 July 2022– Present: FTSE EPRA Nareit Asia Pacific Index. Past performance is not necessarily indicative of future performance. ^Includes the effect of the current subscription fee that is charged, which an investor might or might not pay.

Market Review

Global equities ended the year of 2022 in the red (MSCI All Country World Index: -6.0 percent in SGD terms) as strong macro data and hot inflation print reinforced US Fedederal Reserve (Fed) hike fears. Asian equity markets declined 2.5 percent in December 2022 but relatively outperformed the global equities. Markets were focused on Bank of Japan's (BOJ's) Yield Curve Control (YCC) tweak, while positive news of China/Hong Kong's pivot from its 'Zero-COVID-19 policy' to 'living with COVID-19' was tempered by concerns over the surge in COVID-19 infections and near-term growth headwinds from virus fears. The 10-year US Treasury (UST) yield rose 27 basis points (bps) to 3.87 percent in December 2022. The FTSE EPRA/Nareit Asia Pacific Index dipped 0.9 percent (SGD terms) but relatively outperformed the broader equities market. The strong rebound in China/Hong Kong real estate markets was more than offset by a drag from Australia's real estate market.

The Bank of Japan surprised the market with an earlier-than-anticipated decision to double the YCC 10-year Japanese Government Bond (JGB) target permissible trading band to +/- 50bps from +/-25bps previously in December 2022. This was perceived as a sign the BOJ has pivoted away from its loose monetary policy. However, the BOJ maintained its policy at -0.1 percent for the short rate target (Negative Interest Rate Policy, NIRP) and around 0 percent for the 10-year JGB yield. The BOJ left unchanged its forward guidance that "it expects short and long-term policy interest rates to remain at their present or lower levels". The monthly JGB purchases from the BOJ will be raised from 7.3 trillion Japanese Yen (JPY) to 9 trillion JPY.

The Reserve Bank of **Australia** (RBA) hiked the interest rates by another 25bps to 3.1 percent in December 2022, in line with market expectations. The RBA expects interest rate policy to tighten further but is not on a pre-set course and that inflation remains elevated.

Singapore's non-oil domestic exports (NODX) for November 2022 declined 14.6 percent year-on-year (y/y) (Month-on-Month (m/m): -9.2 percent) and missed market expectations of -6.5 percent. This marks the second consecutive negative reading after 22 months of



expansion. Both electronics and non-electronics exports were weak amid a weaker global demand backdrop.

Hong Kong removed most of its COVID-19 restrictions in December 2022 except for mask-wearing. Travelers no longer need to do mandatory polymerase chain reaction (PCR) tests on arrival. The government also scrapped its contact tracing application 'Leave Home Safe'.

Chinese authorities eased COVID-19 testing requirements across major cities in China in early December 2022 and announced plans to lift the cross-border travel ban effective 8 January 2023. The government will also resume passport issuance for mainland Chinese residents and normal visa services for foreigners. Separately, the market was further given a sentiment boost following China's Central Economic Work Conference (CEWC) policy shift in favor of public-owned enterprises (POEs) and the platform economy

Outlook and Positioning

Notwithstanding a backdrop of slowing global growth and monetary policy tightening, Asia looks better placed in the near term given its domestic demand resilience. We are constructive on North Asia on the back of a slower but still modest earnings outlook with China reopening to provide support. In the Association of Southeast Asian Nations (ASEAN), the ongoing reopening impulse in the region should drive a greater uplift in the services sector to partly cushion the slowdown in trade exports.

The REITs sector heavily underperformed in 2022 as inflation, rate hikes and rising real yields dominated. Despite the macro-level headwinds, property-level fundamentals remain mostly supportive. Conditions supporting a healthy REITs sector earnings growth outlook is largely favourable though certain segments and/or markets may enjoy better growth.

Further, the US Fed policy is a key watchpoint as it could potentially lift valuation overhang on the sector. We continue to adopt a clear bias to companies leveraging the re-opening thematic with compounding growth options or where valuations simply do not reflect the strength of the businesses.

We are neutral on Japan as relative valuations are attractive. In Singapore, Singapore REITs offer one of the most attractive distribution per unit (DPU) growth profiles within the Asia-Pacific (APAC) region. In Australia, logistics remain resilient with a solid rental outlook in key cities in Australia due to tight supply. We are constructive on Hong Kong REITs as the market appears to have priced in the negatives and expectations are low.

By sub-sector, we remain bullish on **Industrial REITs** as tailwinds from secular growth in e-commerce remain intact. The sector's strong earnings visibility is well underpinned by demand for the buildout of a more resilient supply chain, particularly for last-mile properties as well as the continued shift in the regional supply chain (re-shoring of manufacturing facilities).

We maintain a positive stance on **Retail REITs** which are prime beneficiaries of continued social mobility. The consolidation of retail space by retailers alongside abatement in rental waivers should help pave a recovery in earnings for retail landlords as 2023 unfolds.

We are neutral on **Office REITs** due to the muted longer-term outlook owing to structural changes to demand for office space in a post-COVID-19 world. Demand and usage of office



space will evolve, and hybrid Work-from-home could result in a profound shift in net demand as office space is right-sized and re-purposed. Nevertheless, we think the impact is likely limited in countries such as Singapore and Hong Kong where conditions are less conducive for a 'decentralized office' model.

We are bullish on **Hospitality REITs** as the sector is poised to enjoy robust earnings growth as recovery in global travel gains further momentum. Hospitality REITs are prime beneficiaries of border reopening.

We believe REITs still present an attractive investment proposition from a total return perspective, with a combination of stable dividend yield supported by cash flow and upside potential for capital values. Our approach is to use both fundamental screening and valuation overlay to identify REITs with relatively more sustainable recovery paths, fewer concerns on financing risks, and better yield-plus-growth trajectories.



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