United Asia Pacific Real Estate Income Fund

March 2023

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 in 2023 at a more moderate pace of 2-2.3 percent.

- **Sector re-rating:** With global interest rates likely to peak and the market already reset the earnings expectations, we believe the REITs sector is likely to be re-rating.

- **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 Objective

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 25.15 mil

Base Currency

SGD

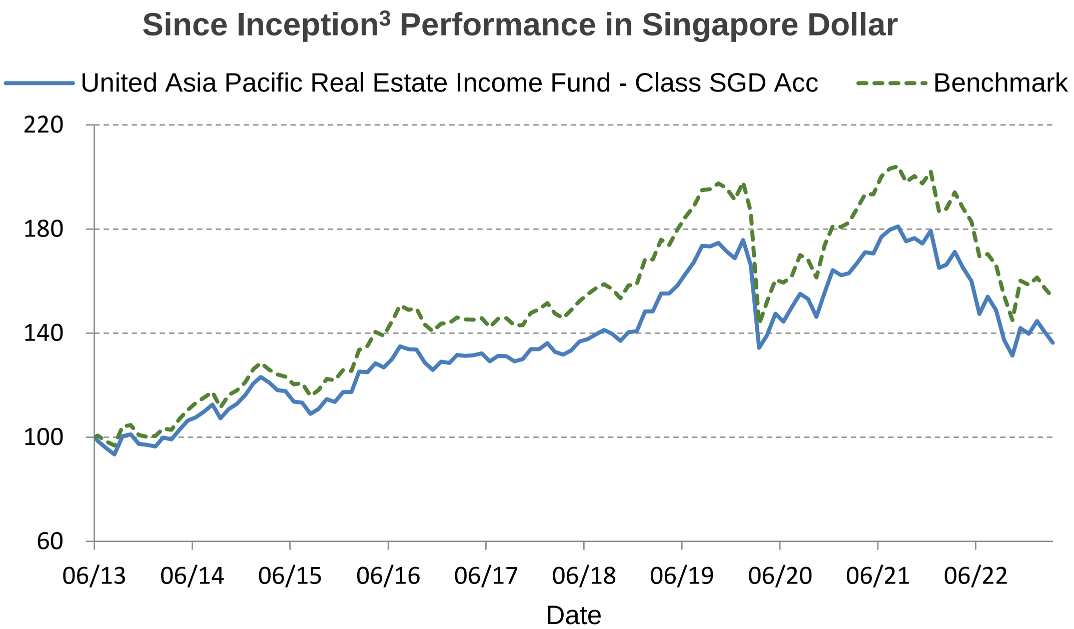
Fund Manager

Low Soo Fang

One Month Portfolio Review

For the month of March 2023, the United Asia Pacific Real Estate Income Fund – SGD Acc (the "Fund") was down -3.06[1] percent. Its benchmark, FTSE EPRA Nareit Asia Pacific Index decreased by -2.44[2] percent.

Historical Performance



Past performance is not necessarily indicative of future performance.

Fund performance is calculated on a NAV to NAV basis.

Benchmark: Since inception – 30 June 2022: S&P Asia Pacific REITs Index. 1 July 2022–Present: FTSE EPRA Nareit Asia Pacific Index

Source: Morningstar. Performance as at 31 March 2023, SGD basis, with dividends and distributions reinvested, if any.

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[1] Source: Morningstar, Performance from 28 February 2023 to 31 March 2023 in SGD terms, on a Net Asset Value ("NAV") basis, with dividends and distributions reinvested (if any).
[2] Source: Morningstar, Performance from 28 February 2023 to 31 March 2023 in SGD terms.
[3] The United Asia Pacific Real Estate Income Fund – SGD Acc (ISIN Code: SG9999009997) and SGD Dist (ISIN Code: SG9999010052) were incepted on 17 June 2013.

All statistics quoted in the write-up are sourced from Bloomberg as at 31 March 2023 unless otherwise stated.

Annualised and Cumulative Performance

Performance (Class SGD Acc)

	Cumulative Performance (%)	Annualised Performance (%)			
	1 month	1 Year	3 Years	5 Years	Since Inception
Fund NAV to NAV	-3.06	-20.39	0.49	0.67	3.22
Fund (Charges applied^)	-7.91	-24.37	-1.21	-0.35	2.68
Benchmark	-2.44	-20.87	2.32	1.05	4.48

Source: Morningstar. Performance as at 31 March 2023, 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 equity markets staged a strong rally (MSCI Asia ex Japan Index: +2.2 percent in SGD terms) in the second half of March 2023 as it repriced the Federal funds rate following the expansion in the US Federal Reserve (Fed) balance sheet by US$350 billion in response to the collapse of Silicon Valley Bank and the turmoil in US regional banking system. The Swiss-government-engineered takeover of Credit Suisse Group AG by UBS Group AG also weighed on investor sentiment. Despite the retreat in 10-year US Treasury (UST) yield (-45 basis points (bps) to 3.5 percent), the FTSE EPRA/Nareit Asia Pacific Index declined 2.3 percent (SGD terms) owing to investor concerns over stress in the US commercial real estate market being replicated in Asia. Singapore's real estate market outperformed while Australia was a key laggard.

Japan's core Consumer Price Index (CPI) rose 3.1 percent year-on-year (y/y) in February 2023 but decelerated on a sequential basis (January 2023: +4.4 percent). The deceleration was largely due to the effect of government subsidies to curb utility bills which pushed down electricity and gas prices. Core CPI increased slightly by 30bps month-on-month (m/m) to 3.5 percent reflecting moderating underlying inflationary pressures.

The Reserve Bank of **Australia** (RBA) raised its cash rate target by 25bps to 3.60 percent in March 2023, meeting market expectations. The central bank agreed to consider pausing its policy tightening cycle in the April meeting, given interest-rate settings are already restrictive and the economic outlook is uncertain.

Singapore's core CPI remained unchanged at 5.5 percent y/y for February 2023 (January 2023: 5.5 percent), coming in below market expectation of 5.8 percent. Lower services inflation was broadly offset by higher inflation for retail and other goods, as well as electricity and gas prices. The Monetary Authority of Singapore (MAS) and Ministry of Trade and Industry (MTI) forecast core CPI to stay above 5 percent y/y in the first quarter of 2023, and remain elevated in the first half of 2023 before easing in the second half of 2023. For 2023, core CPI is projected to be 3.5-4.5 percent.

China's People's Bank of China (PBOC) cut Reserve Requirement Ratio (RRR) by 25bps effective 27 March 2023, earlier than markets had anticipated. This brings the weighted average RRR in the banking system to 7.6 percent, with long-term liquidity injection at an estimated 525 billion yuan in the banking system. March 2023 composite Purchasing Managers' Index (PMI) hit a new record high, highlighting the strength of China's economic rebound after the COVID-19 reopening. **Hong Kong** February 2023 retail sales rose 31 percent y/y as the city welcomed more inbound travelers. Hong Kong's Gross Domestic Product (GDP) for 2023 is forecast to grow 3.5-5.5 percent and headline inflation at 2.9 percent.

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 may 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 are largely favourable though certain segments and/or markets may enjoy better growth. Further, the Fed policy is a key watchpoint as it could potentially lift the valuation overhang on the sector. We continue to adopt a clear bias to companies leveraging the re-opening theme 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 distributions per unit (DPU) growth profiles within the Asia-Pacific (APAC) region. In Australia, logistics remain resilient with a solid rental outlook in key cities due to tight supply. We are constructive on Hong Kong REITs as the valuation is compelling.

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.

We are bullish on **Hospitality REITs** as the sector is poised to enjoy a rebound in earnings as 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 about financing risks, and better yield-plus-growth trajectories.

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