

Top 10 with...



Passion for real estate and
portfolio management

Interview with **Dalibor Maksimovic**





Maintaining growth momentum and performance

Indirect Swiss real estate investment has become increasingly recognized as an efficient instrument for diversification and resilience throughout various economic scenarios, despite starting off as a niche portfolio holding over 15 years ago.

The Swiss Real Estate Securities (SRES) business, whose success is hinged on its long-term relationships with clients, is attracting more investors into this space. Dalibor Maksimovic, Head Swiss Real Estate Securities, discusses what they are doing differently.

SRES facts

2005

Business established

A leading provider

of Swiss real estate products¹

15+

Years of investment experience

In-house **buy-side**

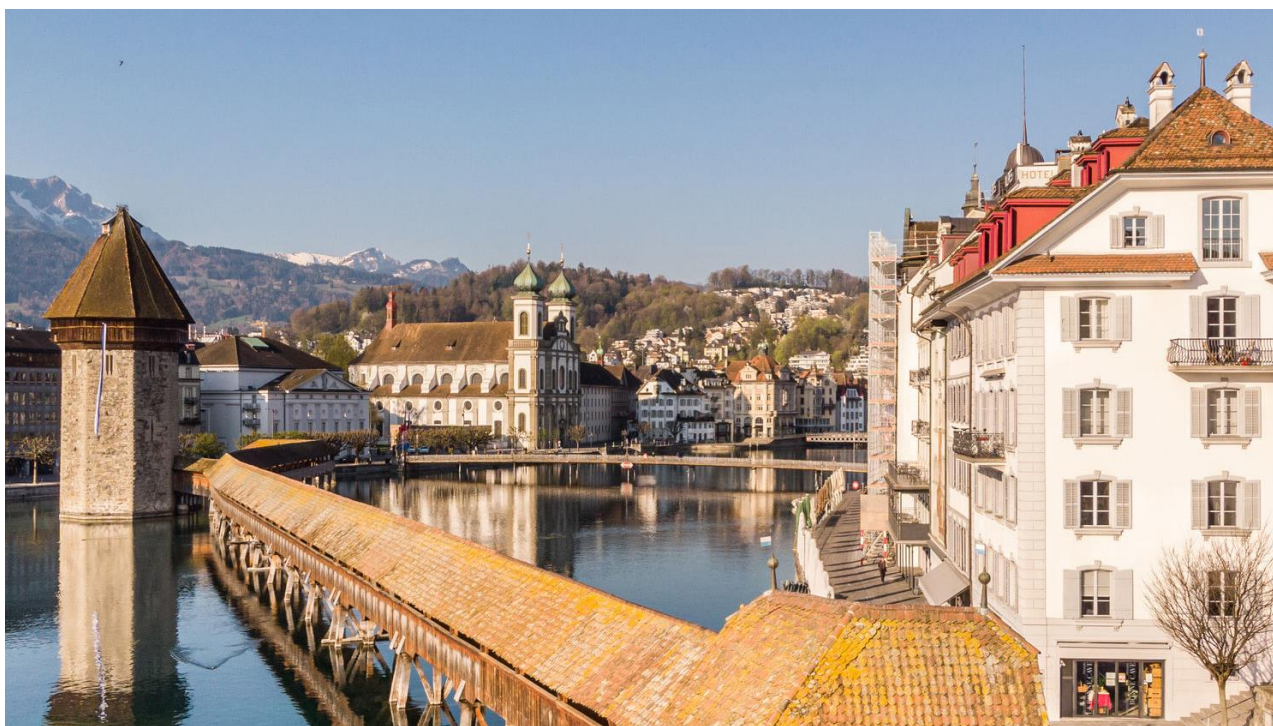
research

What led to the establishment of SRES in Switzerland?

1

When SRES was first established in 2005, the value of indirect Swiss real estate solutions was far less known to investors. Having analyzed the market in detail, we saw the opportunity to create a platform which provides an alternative route into the Swiss indirect investment space, by offering both actively and passively managed solutions from a single source. Investors can benefit from a low correlation to other asset classes or regions and diversify their portfolios. Including indirect Swiss real estate securities investments into a diversified portfolio can improve the risk/return profile which has largely increased investors' scope for success.

Driven by a team of highly motivated and qualified experts, with no staff turnover as of today, our business has been growing consistently in recent years and has developed into an important offering for UBS Asset Management's Real Estate & Private Markets business. The merger of our two parent banks has expanded our business in both size and expertise, creating an excellent complementary offering that leads to more opportunities for our clients and is enabling us to better meet their needs. Since inception, our primary goal has always been to determine how we can best serve our clients across both our wide-ranging actively and passively managed solutions. We pride ourselves on having one of the longest track records in the Swiss real estate securities industry with a goal to serve clients as a partner rather than a product manager.





What are you offering to clients?

2

The SRES business invests in listed and unlisted (NAV-based) Swiss real estate companies and real estate funds. Our strategies are broadly diversified across the Swiss real estate market in terms of regional targets, strategies and underlying investments. Investors are drawn to the option of accessing a variety of services from the same platform combined with the SRES team's flexibility to provide customized solutions. We have forged many long-term client relationships along the way, which we proactively support e.g., by proposing adjustments in parallel with changes in the market.

On the actively managed side, for example, we offer various strategies that encompass all possible combinations of listed and unlisted real estate shares, listed and unlisted real estate funds, and investment foundations. This includes strategies that mix real estate funds and real estate shares as well as options focused exclusively on either 100% real estate funds or 100% investment foundations. Within customized mandates, we can combine each of them as needed. We provide investors with a liquid, efficient and cost-effective route to gaining exposure to traded Swiss real estate funds and companies. We've adopted a particularly proactive approach and can look back on a strong track record of outperforming the benchmark and our peers¹. This is a consistency that both our clients and consultants appreciate. SRES has a diverse product offering, and is currently invested in almost all available investment vehicles across various regions of Switzerland. Consistency is key not only when it comes to managing portfolios, but even more when it comes to collaborating with our clients.

Aside from Exchange Traded Funds (ETF) and commingled funds, we are offering tailor-made solutions for our individually managed accounts. Today, we are a leading provider of investments¹ focused on publicly traded Swiss real estate funds in Switzerland.

3

Who is your typical client?

Thanks to the broad product offering of the SRES business, we've been able to attract a diverse client base. This includes a mix of retail and private investors, as well as institutional clients including Swiss pension funds. Swiss real estate in general has become a more widely known asset class in Switzerland and is not only known by professional investors anymore. But given the fact that real estate is not a *one direction* road, we educate investors where possible on what to consider before investing.

What most of these types of investors have in common is that they are all aiming to invest in real estate but also want to diversify. Further driving factors are the strong return and attractive dividend components of indirect real estate investments. This stems from the regular income attribute our investment class offers. In addition, clients are offered some protection against inflation, since the underlying lease agreements are often linked either to the consumer price index or to the reference interest rate. The real estate funds we invest in are subject to the Collective Investment Schemes Act (CISA) and have restrictive investment limits.

Further, indirect property investment into real estate means clients do not have to commit significant capital sums to the acquisition of a large or expensive property asset like you would do with direct property investment.

Our strategies are broadly diversified across the Swiss real estate market in terms of regional targets, strategies and underlying investments.



How has the market changed since the SRES platform was established?

Not many people would know that real estate funds are one of the oldest types of funds in Switzerland. Looking back over the last three decades, Swiss real estate funds have generated a dividend yield of just below 3%², with an average performance coming to about 5–6% per year³. Subsequently, they yielded more than the corresponding 10-year Swiss Confederation bonds and offered attractive yields in a generally low interest environment.⁴

Alongside the growth of the Swiss real estate securities sector, liquidity also increased. 10 years ago there were 26 listed real estate funds, today there are 43. Besides, also the size of the various vehicles increased due to capital increases. From the year 2000 and onwards, there has been an increasing number of real estate companies who have made their way on to the SIX Swiss Exchange (SIX) too. In the last decade, this asset class has established itself as an efficient instrument for diversification and as an attractive real estate investment solution as well.

In 2022, the Swiss National Bank increased interest rates in order to fight inflation. Interest rates are an important key figure in the world of real estate as they have an impact on financing costs and therefore, valuation. Besides financing costs, increasing interest rates also have an impact on rental income which leads to a certain countereffect on valuations as rental income rises. Even in this challenging environment the Swiss real estate market showed a relatively robust development.

4

How do you differ from your competitors?

5

Firstly, we pride ourselves on having a strong client focus. As one of the leading providers of investments solely focused on Swiss real estate funds and companies¹, client focus is at the center of our offering. Underlining this, SRES is currently managing more than CHF 18 billion in indirect Swiss property investments across a range of both active and passive strategies². We have a robust process in place to ensure our focused and independent offering. Our top priority is to be recognized as the 'one-stop-shop' when it comes to Swiss real estate needs – dedicated, independent, and consistently serving our clients over the years.

Our team has had no turnover, giving us one of the longest track records in the industry, managed by the same group who established these processes. Investors are able to benefit from both regular and strong returns on their investments, as well as the combined in-depth research and market forecasting expertise of our highly experienced investment team. Our experience in providing indirect real estate investments is reflected in our long-term client relationships, with some clients having been with us since SRES was established over 15 years ago.

Our investment research begins with a thorough and disciplined process which is supported by a UBS Asset Management proprietary risk management tool. It enables us to better measure and understand the different risks associated with holding publicly traded securities. And, we add both top-down and bottom-up analyses to assess market conditions. We also combine quantitative and qualitative buy-side research. On the quantitative side, as an example, we analyze full-year results or look for macroeconomic trends. The qualitative analysis is equally instrumental, by undertaking portfolio management due diligence or conducting property tours in different regions of the country.

SRES was created around the same time most of the vehicles we invest in were being established. This has been highly beneficial to investors, given that we are well-connected to these products and their managers. The combination of the above factors gives us the ability to better manage our portfolios and offer clients in-depth knowledge whenever they need it. Our deep understanding of the Swiss real estate market that our business has accumulated over the years is supported by our team's strong network with fund managers and competitors around Switzerland.

Our strong network has proven to add value to our actively and passively managed portfolios. For example, it gives us the ability to trade larger volumes over-the-counter (OTC), which adds another positive value for our passive portfolios. This is supported by our long-tenured experience in this market. All these factors combined provide both the continuity and experience needed to maintain the current growth momentum and strong performance SRES is experiencing today.

Last but not least, real estate has always been my favorite sector. I believe, clients, consultants and colleagues can feel a real *passion for real estate* when they are in contact with the SRES team. We have always been at the forefront of innovation, dynamically adjusting when necessary. A prime example is our state-of-the-art ESG tool which we developed years ahead of the real need for reporting. Our quarterly ESG newsletter has proven to be the perfect complement to support these efforts.


6

What can you say about passive management in your asset class?



Passive management has become an increasingly key part of clients' portfolios for many years. We've seen passive management as one of the most efficient ways to make our clients' investments work for them. Therefore, over 15 years ago, we started launching such products in the indirect Swiss real estate market, but with the market in-depth knowledge of an active manager. In today's client portfolios we see this has proven to be an important investment type. Yet, due to liquidity and other specific factors, it is important that the implementation and daily management of these products differs from other passive sectors. Depending on the market environment and valuation, our clients can choose and switch between active and passive solutions, while retaining the same contacts and information access.

In the case of SRES, investors can leverage the experience and expertise of some of Switzerland's leading indirect real estate portfolios. Our extensive knowledge and familiarity with the ins-and-outs of the Swiss real estate market adds value by providing investors with the opportunity to benefit from our industry expertise. We're therefore able to offer our clients an in-depth analysis of Swiss indirect property investments across a variety of sectors. This is true for both our passive and active portfolios.



You have a track record for active management where you've outperformed the benchmark 13 times in the last 15 years. How is the investment process built?

The Swiss real estate market was considered relatively well-weathered to the impacts of the 2008 global financial crisis compared to much of Europe and the US. The types of real estate funds we invest in enable broad diversification across the full investment universe of the Swiss property market. Our investment process focuses on strong performing funds and companies with solid investments, stable rental incomes and positive price developments. Our investment decisions are built on in-depth technical market analyses of the Swiss real estate sector across segments and regions, with an objective to generate intrinsic value and strong returns for our clients.

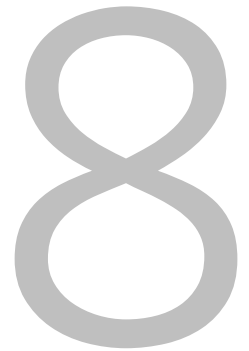
We achieve this by combining quantitative with qualitative analysis. Where opportunities arise, we adjust the process according to the new market environment. For example, we are seeing a strong client demand for sustainable real estate and we expect this to increase further. Therefore, sustainability aspects have been integrated into our investment process by implementing a proprietary ESG Risk Dashboard, as well as us working together with market participants to meet this growing client demand.

SRES's business growth over the years can be largely attributed to both increases in Net New Money inflows and payment in kind. We view this as a testament to our unique combination of actively and passively managed portfolios, which is an effective sales argument for both private and institutional real estate clients.





Given the changed yield environment, what can your asset class offer?



Globally, increased inflation levels forced central banks to increase interest rates in 2022. Relative to other countries the inflation rate in Switzerland was moderate. Nevertheless, the Swiss National Bank raised interest rates stepwise from -0.75% to +1.75% and back to +1.25% in 2024. As a consequence, financing costs increased which considered in isolation has a negative impact on real estate valuations. However, in terms of valuation one must also consider other factors. Commercial rents are mostly linked to the consumer price index and therefore, rise in an inflationary environment. Residential rents are calculated based on a reference rate which is positively correlated to the interest rates set by the Swiss National Bank. In summary, rental income increases in such an environment, leading to a certain countereffect to the higher financing costs.

Besides, higher financing costs and the general uncertain environment led to decreasing activities in the construction sector. Especially in the residential sector this led to imbalances of supply and demand. Switzerland still records net immigration, which leads to an increasing demand for residential property. This increasing demand has a stabilizing effect on valuations, especially for well-located residential buildings.

Investors value SRES's detailed knowledge of the Swiss real estate market – particularly our capacity to find solid, safer and possibly more lucrative investments for their capital, even in a challenging environment. This is an attribute that our clients appreciate given Switzerland's real estate market does not currently have a widely established sell-side analysis.

What's your view on integrating ESG factors into SRES solutions?

We believe it is important to understand the long-term sustainability goals of the companies we invest in. Therefore, we proactively monitor their sustainability efforts and regularly address and emphasize the importance in our due diligence discussions. In order to systematically analyze ESG efforts and make portfolios fit for a sustainable future, SRES developed a proprietary ESG Dashboard in collaboration with the dedicated internal Asset Management Sustainable Investing team for over two years. The tool combines a standardized questionnaire with various other data sources such as the GRESB assessments and enables a holistic ESG assessment as well as the reporting of a blended ESG score through a defined assessment process and a standardized scoring system.

The dashboard is intended to contribute to better transparency and ensures sustainability reporting is included in the performance reporting, with the goal of adding value for clients. Furthermore, it helps to identify deficiencies that can be proactively discussed with the managers concerned. The resulting quantitative ESG assessment is combined with quantitative fundamental analysis to support portfolio management in making investment decisions.

9



10

What trends and innovations potentially impacting the Swiss real estate market could we expect in the future?

Digitalization affected our daily life as it changed the way we work and communicate. Also for the real estate business, digitalization can potentially lead to more efficient processes in different aspects. There are already platforms today, such as key4, where private clients can enter property and mortgage specifications online. The tool subsequently provides non-binding offers from various Swiss providers based on the client's inputs. Interacting online has become the norm and such platforms could potentially see an increasing number of users.⁵

Digitalization also has impacts on the construction process. Building Information Modeling (BIM) describes a working method for networked planning, construction and management of buildings using software. The planning process ideally is made in a cloud solution, so everyone is working on the same model. This way, the individual planning steps become transparent because everyone can see what effects their actions have on other parts of the building.⁶

Lastly, digitalization can lead to a change on how real estate transactions are processed. By tokenization, real estate can be partitioned into small pieces, so-called tokens. Whoever owns a token, owns a piece of the underlying asset. A token is a digital, tradable asset stored on a blockchain. Each transaction is recorded chronologically and is immutable once added to the chain. One of the advantages of this technology is the increased efficiency in the real estate transaction process.⁷

Apart from digitalization, ESG topics will continue to have an impact on the Swiss real estate market. One of these topics is the circular economy. The idea behind is to keep products and materials in circulation. As a result, resource consumption, waste, emissions and energy losses are minimized. In the real estate world, this model could for example be implemented when buildings are demolished. Material from the old building could be gathered and reused. The ultimate goal of a circular economy is to reuse as much material as possible.⁸

Notes: **1** UBS Asset Management, Real Estate & Private Markets (REPM), June 2024, Solutions include ETFs, IF funds, customized mandate solutions (funds, equities, AST, listed, non-listed). **2** Dividend yield is the gross amount as a percentage of the exchange or market price. **3** Bloomberg. Historic performance includes change in price plus any distributions. Data as at June 2024. **4** Datastream, latest annual report of the vehicles, as at 30 June 2024. **5** key4.ch, as at June 2024. **6** researchgate.net (publication 323401191), Promoting Sustainability through Investment in Building Information Modeling (BIM) Technologies: A Design Company Perspective. 2018. **7** blockdata.tech, «Tokenized real estate 2021 update». **8** circular-economy-switzerland.ch, bafu.admin.ch, as at June 2024. Note: **Past performance is no guarantee for future results.**

For more information, please contact:

UBS Asset Management

Real Estate & Private Markets (REPM)

sh-am-private-markets-research@ubs.com



Follow us on LinkedIn

To visit our research platform, [scan me!](#)



www.ubs.com/realestate

This publication is not to be construed as a solicitation of an offer to buy or sell any securities or other financial instruments relating to UBS Asset Management Switzerland AG or its affiliates in Switzerland, the United States or any other jurisdiction.

UBS specifically prohibits the redistribution or reproduction of this material in whole or in part without the prior written permission of UBS and UBS accepts no liability whatsoever for the actions of third parties in this respect. The information and opinions contained in this document have been compiled or arrived at based upon information obtained from sources believed to be reliable and in good faith but no responsibility is accepted for any errors or omissions. All such information and opinions are subject to change without notice. Please note that past performance is not a guide to the future. With investments in real estate / infrastructure / food and agriculture / private equity / private credit (via direct investment, closed- or open-end funds) the underlying assets are illiquid, and valuation is a matter of judgment by a valuer. The value of investments and the income from them may go down as well as up and investors may not get back the original amount invested. Any market or investment views expressed are not intended to be investment research. **The document has not been prepared in line with the requirements of any jurisdiction designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.** The information contained in this document does not constitute a distribution, nor should it be considered a recommendation to purchase or sell any particular security or fund. A number of the comments in this document are considered forward-looking statements. Actual future results, however, may vary materially. The opinions expressed are a reflection of UBS Asset Management's best judgment at the time this document is compiled and any obligation to update or alter forward-looking statements as a result of new information, future events, or otherwise is disclaimed. Furthermore, these views are not intended to predict or guarantee the future performance of any individual security, asset class, markets generally, nor are they intended to predict the future performance of any UBS Asset Management account, portfolio or fund. Source for all data/charts, if not stated otherwise: UBS Asset Management, Real Estate & Private Markets. The views expressed are as of July 2024 and are a general guide to the views of UBS Asset Management, Real Estate & Private Markets. All information as at July 2024 unless stated otherwise. Published July 2024. **Approved for global use.**

© UBS 2024. The key symbol and UBS are among the registered and unregistered trademarks of UBS. Other marks may be trademarks of their respective owners. All rights reserved.

