

Top 10 with...

Interview with **Dalibor Maksimovic** on **Swiss Real Estate Securities**

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SRES facts

2005

business established

Managing¹

CHF

6.5bn+

15+ years

of investment
experience¹

In-house

buy-side

research



Dalibor Maksimovic, Head of Swiss Real Estate Securities, Real Estate & Private Markets

10+ years of quality client service, attractive cash flows and diversification

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 some 10 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. But what are they doing differently?

1

What led to the establishment of SRES in Switzerland?

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 out of one hand. Investors can benefit from a low correlation to other asset classes or regions and diversify their portfolios. This includes indirect Swiss real estate securities investments into a diversified portfolio to 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. Since inception, our primary goal has always been to determine how best we can serve our clients across both our wide-ranging actively and passively managed solutions. And, 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.

2

What are you offering to clients?

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 being able to access 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, of which we proactively support, including proposing adjustments in parallel with changes in the market.

On the actively managed side, for example, we have strategies such as combining real estate funds and real estate shares, 100% real estate funds only or 100% investment foundations (AST). 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 an excellent track-record of outperforming the benchmark and our peers. 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 parts of Switzerland. Consistency is key not only when it comes to managing portfolios, but even more when it comes to collaborating with our clients

On average, the real estate funds invest around two-thirds in residential real estate in Switzerland. The remainder is accounted for by commercial properties and real estate used for other purposes. 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 investments focused on publicly traded Swiss real estate funds in Switzerland.

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Who is your typical client?

Given the SRES business's broad product offering, we've been able to attract a diverse client base which includes a combination of retail and private investors, and institutional clients including Swiss pension funds. Recently we've been seeing strong demand from the retail segment. Swiss real estate in general has become a more widely known topic in Switzerland, not only by professional investors. Everyone is talking about Swiss real estate. But given the fact that real estate is not a "one direction" road, we educate where possible on what to consider before investing.

What most of these types of investors have in common is they are all angling to invest in real estate but also want to diversify. Another driving factor is the strong return and attractive dividends components of indirect real estate investment. 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.

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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 in Switzerland. Looking far back over the last three decades, Swiss real estate funds have generated a dividend yield of just below 3%², with an overall performance coming to about 5 -10% per year³. Subsequently, they yielded more than the corresponding 10-year Swiss Confederation bonds and offer attractive yields in a low interest environment. We expect the market to continue growing, along with liquidity, as there will be further listings and capital increases. Insurance companies in Switzerland are beginning to create their own listed real estate funds, which we expect to join the benchmark over the next few years. These portfolios tend to have a high allocation to the residential segment and offer a high degree of diversification, an attribute which is well received by clients these days.

In the last decade, we have seen an increasing interest and recognition of this asset class as an efficient instrument for diversification and an attractive real estate investment solution. From 2000 onwards, there has been an increasing number of real estate companies who have made their way on to the SIX Swiss Exchange (SIX). As testament to this maturing industry, the SRES business has too been witnessing steady growth and increasing market share.

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

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How do you differ from your competitors?

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 companies, client focus is at the center of our offering. Underlining this, SRES is currently managing more than CHF 6.5 billion in indirect Swiss property investments across a range of both active and passive strategies¹. Investors are able to benefit from both regular and strong returns on their investments, as well as the combined in-depth research, 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 10 years ago.

Our investment research begins with a thorough and disciplined process which is supported by 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 analysis 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 analyzing 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 these funds 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 be value-add for our actively and passively managed portfolios by giving us, for example, the ability to trade larger volumes over-the-counter (OTC), 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.

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

Passive management has become an increasing key part of clients' portfolios for many years. We've seen passive management as being one of the most efficient ways to make our clients' investments work for them. Therefore over 10 years ago, we started by 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 off 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 is value-add 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.

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You have a track-record for active management where you've outperformed the benchmark each year since 2009. 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 analysis 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 over time. Therefore, sustainability has become a key component integrated into our investment process, 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 being an effective sales argument for both private and institutional real estate clients.

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Given the low yield environment everywhere, what can your asset class offer in this environment?

Globally, the current low interest rates, tensions on trade markets and slowdown of larger economies is impacting almost all asset classes. In general the global economy was in line with expectations and showed large, double-digit declines in GDP. However, despite a slowdown Switzerland's economy is expected to suffer less of a beating from the COVID-19 crisis than others in Europe⁴. Swiss real estate investors are particularly drawn to the attractive return potential of our diverse investment solutions, which represents a steady long-term strategy that has proven to be highly profitable throughout various economic scenarios. This is especially the case in the very low interest rate environment, which appears to stay longer than initially thought.

As with investment into any other asset class there are always associated risks. When you invest in any income asset, there is always the ongoing risk of losing the income stream coming from tenant default or increased vacancy rate for example. This has an impact on the value of the investment. More generally, a change in value can be caused by a general downturn in the market. 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. This is an attribute that our clients appreciate given Switzerland's real estate market does not currently have a widely established sell-side analysis.

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What impact has the COVID-19 crisis had on SRES's portfolios?

COVID-19 has had an impact on probably all market levels. Of course, Swiss real estate investments cannot withstand completely, especially in the short-term. But what was confirmed again is that our asset class and its diversified portfolios (e.g. regions, sectors, managers) helped to recover quickly. We had many clients take advantage of the short and sharp correction in March. Today, these clients look at a performance of around 10% within a few months as the market trades around December 2019 levels again⁵.

Looking at the different crises we've experienced over the last 10-15 years, Swiss real estate has always been a good diversifier within a portfolio and has helped to improve risk-return profile. The potential impact of COVID-19 was analyzed by the fund managers and has likely already been priced in, hence the increased demand for Swiss real estate we are now seeing again. Not only for our business, but for the real estate market in general. We hear from market participants that prices for solid real estate investments remain up and in some cases continue to increase.

Our products offer attractive yield payouts. In today's climate, quality cash flows have an even higher value. In terms of performance and risk, we adjust our portfolios where needed to shelter as much as possible from negative impacts. Last but not least, we were able to provide our clients with the latest information and opinions even at the height of periods of crises. This is testament to one of SRES's key USPs.

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What do you predict for the indirect Swiss real estate market for the remainder of 2020 and beyond?

Switzerland has long been a market that attracts real estate investors. And in uncertain economic times, the Swiss real estate market can be viewed as being much more stable. In spite of the COVID-19 downward pull on the market the Swiss real estate market can still be considered relative low-risk in the current economic environment. Demand has increased especially in this low-yield environment, where quality cash flows are still currently quite attractive at around 2.7%⁵. This is why our business has still been witnessing a steady influx of investor interest in this area. This is supported by the recent recovery and demand, where many capital market transactions were absorbed well and performance recovered at the end of 2019.

Another important factor is ESG. Although responsible investing has been on agendas for quite a while in the Swiss real estate segment (e.g. the Swiss Minergie Certification for more energy efficient buildings), it is still gaining increasing importance as benchmarks such as GRESB increase in momentum in defining the global standard for sustainability performance in real assets. We actively promote awareness for sustainable real estate investing and how it can be valuable to an investor. In addition, a sustainability analysis is an essential component to our due diligence process. Looking ahead, we expect quantitative analysis to measure the sustainability of real estate becoming much more prominent.

Returns are still relatively strong, driven by interest rate developments. Subsequently, Swiss real estate funds are registering return premiums, though this has calmed recently due to the COVID-19 impact. History has shown that Swiss real estate funds are much more sensitive to a changing interest rate environment. But, with low expectations for interest rate changes into the foreseeable future, we expect this to continue to support the demand for indirect real estate investments. Businesses such as ours with wide diversification across regions and sectors are better positioned to capitalize off the current economic environment.

¹ Data as at 30 June 2020. ² Dividend yield is the gross amount as a percentage of the exchange or market price. ³ Historic performance includes change in price plus any distributions. ⁴ KOF Swiss Economic Institute, August 2020. ⁵ Bloomberg market data, July 2020.
Note: Past performance is no guarantee for future results.



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