



UBS Clarion Global Property Securities Fund

October 2020

Fund description

The Fund is an actively managed fund investing in a portfolio of 60–90 global real estate equity securities across a range of geographic and economic sectors.

Investment strategy

The Fund uses a multi-step investment process for constructing the Fund's investment portfolio that combines top-down region and sector allocation with bottom-up individual stock selection.

Top-down sector and regional allocation is determined through a systematic evaluation of listed and direct property market trends and conditions. Bottom-up stock selection is driven by proprietary analytical techniques to conduct fundamental company analysis, which provides a framework for security selection through an analysis of individual securities independently and relative to each other.

Investment return objective

The Fund aims to outperform (after management costs) the FTSE EPRA/NAREIT Developed Rental Net Return Index (AUD Hedged) over rolling three year periods.

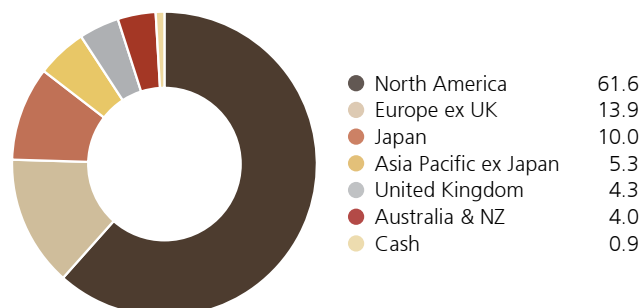
Top 10 positions by stock

| Name | Country |
|-----------------------------|---------------|
| Prologis | United States |
| Invitation Homes | United States |
| Vonovia | Germany |
| Duke Realty | United States |
| CubeSmart | United States |
| Simon Property | United States |
| Equity Residential | United States |
| CyrusOne | United States |
| Healthcare Trust of America | United States |
| Ventas | United States |

Fund information

| | |
|----------------------------|---|
| Inception date | 31 July 2006 |
| Fund size | \$312.6 m |
| Management fee | 0.90% pa |
| Minimum initial investment | \$10,000 (via mFund and online application \$5,000) |
| Distributions | Semi-annually |
| Typical number of holdings | 60 to 90 |
| Buy/sell spread | +/- 0.25% |
| Currency management | Hedged |
| APIR code | HML0016AU |
| mFund code | UAM10 |

Investment portfolio (%)



Note: Data is inclusive of pending transactions.

Investment performance

| Fund | 1 month % | 3 months % | 1 year % | 3 years % pa | 5 years % pa | Since inception* % pa |
|--------------------|-------------|-------------|-------------|--------------|--------------|-----------------------|
| Total return | (3.29) | (4.03) | (19.56) | 0.23 | 0.90 | 4.26 |
| Benchmark** | (3.39) | (4.27) | (25.49) | (2.77) | 0.13 | 3.70 |
| Added Value | 0.10 | 0.24 | 5.93 | 3.00 | 0.77 | 0.56 |

*Inception date: 31 July 2006. **With effect 1 April 2012, the Responsible Entity changed the benchmark from the UBS Global Real Estate Investors ex Australia Net Total Return Index (AUD Hedged) to UBS Global Real Estate Investors Net Return Index (AUD Hedged). With effect 2 March 2015, the Responsible Entity changed the benchmark to FTSE EPRA/NAREIT Developed Rental Net Return Index (AUD Hedged).

Performance figures are net of ongoing fees and expenses. The performance figures quoted are historical, calculated using end of month redemption prices, and do not allow for the effects of income tax or inflation. Total returns assume the reinvestment of all distributions. Performance can be volatile and future returns can vary from past returns.

Portfolio review

After fees and expenses, the portfolio decreased by 3.29% over the month, outperforming its benchmark by 10bps.

We outperformed the benchmark for the month. In Continental Europe, the largest contributors to our relative performance for the month came from not owning Spanish diversified company Merlin, pan-European company Covivio, and health-care real estate company Aedifica.

In the Asia-Pacific region, our stock selection in Australia drove outperformance for the month, driven by our overweight to outperforming daily needs retail-oriented stocks Home Consortium and Shopping Centres Australasia.

In North America, relative performance was modestly negative for the month. Drag from the office and healthcare sectors more than offset a positive contribution from the residential sector. On the positive side, our overweight to single-family for rent operator Front Yard Residential was up over 50% on the month as it was announced the company was being privatized at \$13.50/share, highlighting the strong bid for single family for rent portfolios.

Market review

Real estate stocks were down -3.3% for the month of October. Real estate stocks traded down in unison with the broader equity market at the end of October, as markets traded cautiously into the U.S. Presidential Election in early November. There were no positive countries or regions in October.

Since their bottom in early May, real estate stocks have performed well when news is announced about either improving economic conditions or positive news about a vaccine to fight COVID.

We believe a moderate and controlled re-opening of the global economy as we advance to 2021 may act as a catalyst for the real estate securities sector. We estimate that 2020 global real estate earnings estimates will be down approximately -4% as a result of the near-term demand destruction from the COVID pandemic and resulting economic recession. However, in 2021 we expect earnings to grow +6% assuming the pandemic will be managed, the global economy will recover, and demand will begin to return even for the most hard-hit property sectors.

At the time of writing this letter, we do not know the next President of the United States. While the voting process is working, the outcome may not be known for days after the election. In our view, given that each candidate professes a support for both an economic stimulus package to counter the negative economic effects of the pandemic and a growth agenda for the U.S. economy, we believe real estate is well positioned to outperform as the demand-side of commercial real estate begins to revive.

Outlook

Real estate stocks are trading at a global average -13% discount to private market real estate value (i.e., NAV), with an implied unleveraged cash flow yield of 5.7%. In the U.S., the spread between implied cap rates and Baa corporate bonds is an eye-popping +253 basis points versus a long-term average of +95 basis points. Outside the U.S., these spreads are also historically wide. Relative to the broader stock market, REITs look cheap as well. The forward multiple of global REIT earnings is 15.4x versus the 19.2x Price-to-Earnings ratio of the MSCI World Equity Index; normally the multiples are similar and the present gap of 3.8x has not been seen since the Global Financial Crisis.

In the U.S., we favor towers, net lease, single family for rent, medical office, and life science. We have begun to add selectively to the portfolio "over-sold" stocks that represent "great value" in the senior housing, apartment and grocery-anchored shopping center sectors.

In Japan, we prefer mid-cap office stocks that are providing earnings resiliency at a very attractive relative valuation, and we continue to overweight select larger diversified real estate companies that have committed to improving their corporate governance. In Hong Kong, we are overweight attractively valued diversified companies and non-discretionary retail. In Australia, we prefer residential and non-discretionary retail.

In the U.K., we favor the storage, industrial, and residential sectors. In Continental Europe, we own the German residential companies and prefer property companies in markets with a positive earnings growth profile, which favors mid to small cap stocks in Belgium and the Nordics.

Client Services

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