UBS

UBS Asset Management
All data as at 28 February 2021

UBS Clarion Global Property Securities Fund

February 2021

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.

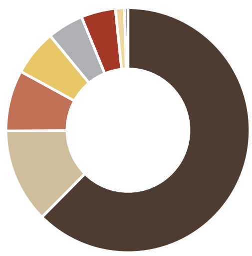
Top 10 positions by stock

Name	Country
Prologis	United States
Simon Property Group	United States
Extra Space Storage	United States
Duke Realty Corporation	United States
CubeSmart	United States
VEREIT	United States
Camden Property Trust	United States
Ventas	United States
American Tower Corporation	United States
Vonovia SE	Germany

Fund information

Inception date	31 July 2006
Fund size	$363.7 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 (%)



North America	62.45
Europe ex UK	12.45
Japan	8.05
Asia Pacific ex Japan	6.05
United Kingdom	4.79
Australia & NZ	4.55
Cash	1.20
Ireland	0.46

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	3.73	6.24	0.02	7.01	5.27	5.29
Benchmark**	3.28	5.64	(4.75)	4.47	3.95	4.77
Added Value	**0.45**	**0.60**	**4.77**	**2.54**	**1.32**	**0.52**

*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

We outperformed the benchmark for the month. After generating strong relative performance throughout 2020, we continue to deliver relative outperformance in 2021.

In the U.S., positive relative performance was driven by positioning in the mall, self-storage, and data center sectors. In the mall sector, an overweight to Simon Property Group continues to generate outperformance, as the stock was up +20% for the month. In the self-storage sector, the Extra Space Storage overweight was the primary driver of outperformance.

In the Asia-Pacific region, underperformance for the month was largely driven by overweights to Home Consortium and Goodman Group in Australia despite the companies meeting and beating 1H 2021 earnings expectations, respectively.

Relative outperformance in Europe was largely driven by portfolio positioning in two French listed stocks: an overweight to outperforming Mercialys (+20%) and not owning underperforming Unibail-Rodamco-Westfield (-13%). Unibail is an over-leveraged mall owner that had very difficult earnings results and sadly announced that it plans to eliminate its dividend for the next three years to pay down leverage

Market review

Since the global pandemic arrived approximately one year ago, real estate stocks have significantly trailed the broader stock indices as public market investors discounted a very difficult operating environment for real estate landlords. As investors have begun to discount an economic re-opening, real estate stocks have started to become an outperforming sector. In February, global real estate stocks were up +3.3%, outperforming broad stock market indices and significantly outperforming the broad fixed income market index (Barclays U.S. Aggregate Bond Index -1.4%). For real estate stocks, we believe this is an outperforming trend that has substantial room to grow. Outside the U.S., earnings season has yet to begin. In general, many of the operating trends we see with the U.S. companies that have reported, we expect to see from the non-U.S. companies, particularly as it relates to industrial real estate.

In the U.S., earnings season has gone well, with the majority of companies meeting or beating fourth quarter expectations and reinforcing 2021 earnings expectations. The storage sector was the one sector that showed material upside surprise to both fourth quarter results and 2021 guidance.

A good example of the strong storage results can be found in the earnings release for Extra Space Storage ("EXR"), a company we are overweight in the portfolio. EXR turned in core FFO of $1.48/share, well ahead of the $1.34/share consensus estimate, with same store NOI results up +3.4% in the fourth quarter as occupancies remain elevated at 94.8% at year-end and price increases are beginning to take hold in their portfolio.

Outlook

It is unusual for real estate securities to be "cheap" relative to all three of these broader asset classes at the same time. At February 28, 2021, real estate stocks are trading at a global average -6% discount to private market real estate value (i.e., NAV), with an implied unleveraged cash flow yield of 5.4%. In the U.S., the spread between implied cap rates and Baa corporate bonds is +215 basis points versus a long-term average of +98 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 18.1x versus the 20.0x Price-to-Earnings ratio of the MSCI World Equity Index; normally the multiples are similar and the present gap of 1.9x has not been seen in several years.

We do not believe that rising interest rates will disrupt our positive total return outlook for real estate stocks for three primary reasons: 1) CBRE Global Investors' economic forecast projects that market-based interest rates will rise only moderately through the course of 2021 with no central banks raising interest rates during the year; 2) the historically wide yield spreads between real estate stocks and fixed income instruments provide a substantial cushion should interest rates rise above current expectations; and 3) the short-term positive correlation between real estate stocks and interest rates has broken down during this COVID pandemic. In 2020, real estate stocks were negative while interest rates fell. Real estate stocks acted as an "economic re-opening sector," so it is possible that an increase in interest rates as an indicator of an economic recovering will be a positive for real estate stock performance.

Client Services

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