

UBS CBRE Global Property Securities Fund

January 2022

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
Sun Communities	United States
CubeSmart	United States
Extra Space Storage	United States
Camden Property Trust	United States
Simon Property Group	United States
Essex Property Trust	United States
Realty Income Corporation	United States
Rexford Industrial Realty	United States
Digital Realty Trust	United States

Investment performance

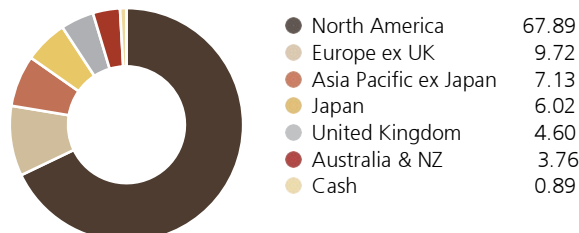
Fund	1 month %	3 months %	1 year %	3 years % pa	5 years % pa	Since inception* % pa
Total return	(6.82)	(1.28)	30.52	11.10	8.92	6.54
Benchmark**	(6.10)	(1.12)	23.67	5.70	5.93	5.70
Added Value	(0.72)	(0.16)	6.85	5.40	2.99	0.84

*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.

Fund information

Inception date	31 July 2006
Fund size	\$ 444.4 m
Management fee	0.90% pa
Minimum initial investment	\$50,000
Distributions	Semi-annually
Typical number of holdings	60 to 90
Buy/sell spread	+/- 0.25%
Currency management	Hedged
APIR code	HML0016AU

Investment portfolio (%)



Portfolio review

After substantial relative outperformance in the 4th quarter 2021 as well as the full-year 2021, the portfolio underperformed the benchmark in January.

In the U.S., during the month, underperformance was driven by portfolio positioning in the storage and residential sectors. We are overweight the storage sector, and after being a top performing sector during the fourth quarter 2021 and the full year, the sector experienced what could be described as “profit taking” by investors in January. This underperforming sector was down -8% in January and our favourite storage stocks, ExtraSpace and CubeSmart, underperformed the sector average.

In the European Region, negative stock selection in both the U.K. and on the Continent was driven by underperformance in overweight positions that were previously outperformers in the fourth quarter 2021. Portfolio positioning suffered from an overweight to underperforming storage and industrial stocks, as well as select positions in Sweden (SBBB).

In the Asia-Pacific region, the portfolio outperformed the benchmark primarily because of positive stock selection in Japan (Daiwa Office REIT) and Singapore (Digital Core REIT) outweighing negative stock selection in Australia, driven by an overweight to real estate fund manager HomeCo.

Market review

Inflation fears and accelerating expectations of U.S. Federal Reserve rate hikes in 2022 dominated the news headlines in January, negatively affecting equity markets around the world. Global real estate stocks were not immune, falling -5.9%, underperforming the MSCI World Index (-4.9%).

We view January’s selloff not only as a tactical opportunity to invest in real estate stocks, but also as a time to position investor portfolios for the remainder of 2022 and beyond. Over the duration of this business cycle, we see many of the headwinds facing broader equities—decelerating growth, higher inflation, and robust valuations—as tailwinds for real estate stocks. Specifically, real estate stocks offer attractive dividend yields, inflation-protected earnings growth, and a history of outperformance during periods of moderating economic growth as well as periods of above-average inflation. Furthermore, we believe real estate stocks are attractively valued versus the equity market, the fixed income market, and the private real estate market.

Globally, our analysts cover close to 500 real estate stocks. We currently estimate 2022 earnings growth should be above 10%, up from 7.5% expected a year ago and accelerating from the +9% growth achieved in 2021. In addition, we have increased our NAVs for most property sectors as the wall of capital looking to invest in real assets remains quite strong in the private markets, and cap rates continue to inch downward given current transaction pricing that incorporates an attractive growth outlook.

Outlook

Given the improving earnings growth outlook for global real estate stocks, coupled with the decelerating growth expected in broad equities, we believe the global REIT earnings multiple can trade at a premium to the MSCI World Equity Index, which historically occurs when real estate fundamentals and earnings are accelerating.

Based on our proprietary valuation dashboard, real estate securities valuations are attractive relative to the private real estate, fixed income, and broader stock markets. At 01/31/22, real estate stocks are trading with an implied unleveraged cash flow yield of 5.9%. In the U.S., the spread between implied cap rates and Baa corporate bonds is +151basis points versus a long-term average of +100 basis points. Outside the U.S., these spreads are wide as well. The forward multiple of global REIT earnings is 18.4x versus the 18.3x Price-to-Earnings ratio of the MSCI World Equity Index.

In the U.S., we are overweight storage, residential, malls, towers, and hotels. In Japan, we prefer industrial, and mid-cap diversified and office J-REITs that are providing earnings resiliency at a very attractive relative valuation. In Hong Kong, we are overweight diversified companies with a commercial/retail bias, and non-discretionary retail. In Australia, we prefer retail, commercial, and a few select diversified companies.

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

Client Services

Telephone: (03) 9046 4041 Freecall: 1800 572 018 Email: ubs@unitregistry.com.au www.ubs.com/am-australia

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