

UBS CBRE Global Property Securities Fund

February 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.

Target market

The Target Market Determination (TMD) for the Fund sets out the class of consumers for whom the product, including its key attributes, would likely be consistent with their likely objectives, financial situation and needs. To access to the TMD and other Fund documentation visit our [website](#).

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.

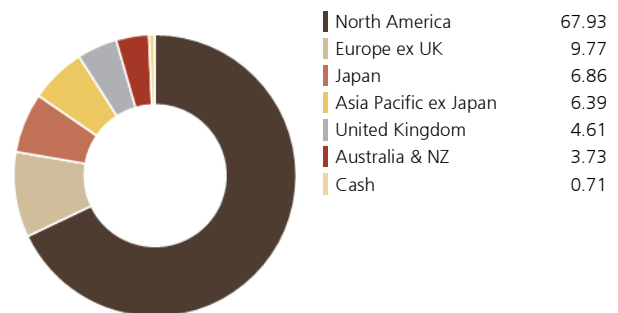
Top 10 positions by stock

Name	Country
Prologis	United States
Sun Communities	United States
Camden Property Trust	United States
CubeSmart	United States
Extra Space Storage	United States
Simon Property Group	United States
Realty Income Corporation	United States
Essex Property Trust	United States
Crown Castle International Corporation	United States
Rexford Industrial Realty	United States

Fund information

Inception date	31 July 2006
Fund size	\$ 417.1 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 (%)



Investment portfolio (%)

Fund	1 month %	3 months %	1 year %	3 years % pa	5 years % pa	Since inception* % pa
Total return	(3.23)	(3.56)	21.77	9.67	7.58	6.28
Benchmark**	(2.71)	(2.90)	16.49	4.66	4.69	5.49
Added Value	(0.52)	(0.66)	5.28	5.01	2.89	0.79

* 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

The portfolio underperformed the benchmark in February.

Relative to the benchmark, the Americas portion of the portfolio underperformed for the month, while the Asia-Pacific and European Regions were very modest drags on performance.

In the Americas, underperformance for the month was driven by portfolio positioning in the storage, office, and retail sectors. We remain underweight to the U.S. office sector, but the office sector was +6.1% for the month, materially outperforming the benchmark. While U.S. office fundamentals are no longer deteriorating, we are unable to underwrite any material improvement in U.S. office fundamentals and earnings, and so we remain underweight U.S. office and view the February material outperformance as a short-lived "relief rally" that the office outlook is not getting worse.

In the European Region, on the Continent, the top contributor to performance was a recently established overweight to outperforming retail stock Klepierre (+9.4%), as the company reported a strong fourth quarter result and provided an optimistic outlook for 2022. In the U.K., positive stock selection attribution was driven by underperforming office stocks that we did not own, Derwent London and Great Portland.

In the Asia-Pacific region, portfolio performance was modestly below the benchmark. An overweight to Korea-listed industrial logistics ESR Kendall Square REIT (+8.3%) was a top contributor for the month, rebounding after a period of underperformance following completion of a rights issue.

Market review

Since the beginning of the year, the equity markets have had to navigate inflation fears and accelerating expectations of U.S. Federal Reserve rate hikes in 2022. In February, Russia invaded Ukraine, rattling already unsettled equity markets. For the month, global real estate stocks fell - 2.8%, modestly outperforming the S&P 500 (-3.0%) and underperforming the MSCI World Index (- 2.6%).

The conflict in Ukraine is weighing on equities globally, including the stocks in our global real estate strategy. We do not know how long this conflict will last or the outcome of the conflict. What we do know is that our global real estate strategy: 1) has no holdings related to Russia or Ukraine and 2)

we have been, and continue to be, underweight Europe as a result of our fundamental underwriting, preferring the relative valuations and growth opportunities in the U.S. and Asia-Pacific regions.

The first two months of 2022 will be remembered as volatile for the equity markets. Equity investors had to digest a plethora of issues: rising inflation fears, rising interest rates, the Omicron variant, accelerating expectations for Fed Fund's rate hikes, Russia invading Ukraine, and a clear shift in investor preference from growth stocks to value stocks in the broader equity markets.

In the short term, negative headline news can create volatility for real estate stocks. In the long run, we believe the earnings outlook should drive real estate stock performance, and as a result we feel very good about the outlook for real estate stocks in 2022.

Outlook

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 28/2/22, real estate stocks are trading at a discount of 7.1% 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 +125 basis 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 17.8x versus the 17.4x Price-to-Earnings ratio of the MSCI World Equity Index, normally the multiples are similar.

In the U.S., we are overweight storage, residential, malls and towers. 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. 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, select 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.

Client Services

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