

UBS CBRE Global Property Securities Fund

August 2023

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.

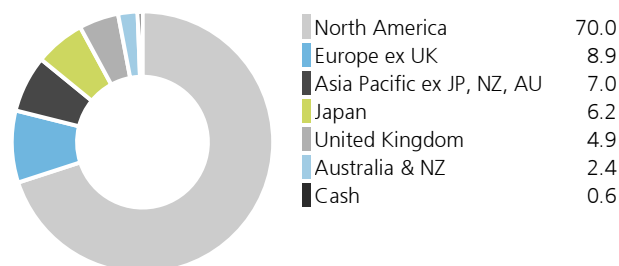
Investment objective

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

Fund information

Inception date	31 July 2006
Fund size	\$ 309.6m
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 (%)



Top 10 positions by stock

Name	Country	Portfolio Weight (%)
Public Storage	United States	6.93
Equinix, Inc.	United States	5.43
Welltower Inc.	United States	5.39
Prologis, Inc.	United States	4.72
Invitation Homes, Inc.	United States	4.17
Rexford Industrial Realty, Inc.	United States	3.92
Simon Property Group, Inc.	United States	3.88
Alexandria Real Estate Equities, Inc.	United States	2.99
CubeSmart	United States	2.92
Americold Realty Trust, Inc.	United States	2.26
Top 10 Total		42.61

Top 5 overweight by stocks

Name	Country	Active Weight (%)
Public Storage	United States	3.84
Rexford Industrial Realty, Inc.	United States	3.15
Invitation Homes, Inc.	United States	2.69
Welltower Inc.	United States	2.45
CubeSmart	United States	2.25

Top 5 underweight by stocks

Name	Country	Active Weight (%)
Prologis, Inc.	United States	(3.45)
Digital Realty Trust, Inc.	United States	(2.73)
Realty Income Corporation	United States	(2.64)
VICI Properties Inc	United States	(2.21)
Extra Space Storage Inc.	United States	(1.92)

Investment performance

	1 month %	3 months %	1 year %	2 years % pa	3 years % pa	5 years % pa	Since inception* % pa
Total return	(2.84)	2.34	(7.70)	(10.43)	3.60	2.00	4.53
Benchmark**	(2.93)	0.18	(10.47)	(12.64)	0.82	(1.61)	3.59
Added Value	0.09	2.16	2.77	2.21	2.78	3.61	0.94

* 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.

Market review

After having rallied in July, global real estate stocks fell in August and are now flat in the third quarter but positive year-to-date. In August, the markets seemed to discount the potential for a hawkish message from the U.S. Federal Reserve at its Jackson Hole Symposium. As a result, the 10-year Treasury yield rose, and common stocks, including real estate stocks, fell for most of the month. On August 25th, Fed Chairman Powell delivered a speech that was described by the Evercore ISI economics team as “stern in tone, but moderate on substance, and it feels like air cover for going on hold.” After this speech, stocks rallied and the 10-year yield fell during the last week of the month. The global economy is healthy, and as a result, the probability of a material global recession is diminishing. Inflation is moderating. The U.S. Fed has communicated that any further tightening is entirely data-dependent, and so the Fed’s tightening cycle is nearing the end. Real estate stocks have traditionally outperformed the broader market in advance of an end to the tightening cycle and have also outperformed in the twelve months following the end of the cycle.

North America

North American real estate stocks underperformed the index for the month. In the last week of the month, three unique transactions were announced, each of which indicate that animal spirits are beginning to percolate in the US real estate market. First, Realty Income (“O”) invested \$950 M in the Bellagio Las Vegas, buying an approximate 21% interest in the A+ asset from Blackstone, who is raising capital to meet redemption requests in their private funds. Second, small-cap Hersha Hotels is being taken private by PE firm KSL Capital Partners at a 59% premium to Hersha’s prior closing stock price in a \$1.4B transaction. Third, Kimco Realty (“KIM”) has agreed to purchase RPT Realty Trust (“RPT”) in a \$1 B, all stock transaction, at a 19% premium to RPT’s prior day close.

Asia-Pacific

Asia-Pacific real estate stocks moderately outperformed for the month. In August, Hong Kong was the worst performing country index. Negative economic news and sentiment from China continue to create negative headwinds to the Asia-Pacific region in general and the Hong Kong stock market in particular. Hong Kong stocks are very inexpensive based on our underwriting, but the

stocks lack positive catalysts at this time. On the positive side, Australian real estate stocks reported solid second quarter results, with particular strength from data centers, industrial, and retail, while office remains weak and residential is showing signs of stabilizing with improving sales and settlement conditions expected for FY 2024.

Europe

European real estate stocks fell modestly, less than the global index. August is typically a quiet news month in Europe, and this August was no different. There was an interesting political development in Germany. Germany’s ruling Social Democratic party (SPD) plans to propose lowering the maximum rent increase over a 3-year period to 6% in tight markets. The current three-year maximum increase is 20% (15% in tight markets), where the coalition has agreed to lower to 11%. Our portfolio continues to be underweight German Residential stocks because of the high leverage balance sheets. We would view the implementation of caps on rent increase as being an additional headwind to the sector.

Performance review

The portfolio outperformed for the month driven by strong stock selection which more than offset negative sector allocation.

Americas

From a sector perspective, our underweight to the outperforming data center and office sectors combined with an overweight to the underperforming mall and storage sectors drove negative performance for the month.

Asia-Pacific

Positive stock selection in Australia drove outperformance versus the benchmark in the Asia-Pacific region. Overweight positioning to outperforming Industrial Logistics fund manager Goodman added value following the release of its FY23 earnings result, in which they announced a significant development opportunity.

Europe

European positioning modestly outperformed the benchmark for the month. Owning outperforming Big Yellow (storage) and Mercialis (grocery retail) were key drivers.



Market outlook

Historically attractive valuations

- Private real estate values are expected to continue to decline as they adjust to the higher interest rate environment
- We believe the listed markets have already priced in higher interest rates and screen attractive relative to fixed income, equities, and private real estate
- We estimate that REITs are trading at a -18% discount to private market values despite incorporating an expected 15% reduction in private real estate values

Fundamentals remain solid

- Long-duration leases and staggered lease terms support earnings stability
- Higher construction costs support a healthy supply vs demand dynamic
- Balance sheets and leverage levels for the public companies are in a position of strength relative to history
- We project dividend growth of approximately 10% in 2023

Headline risk vs reality

- REITs can and have performed well in a higher-for-longer interest rate environment
- Despite tighter lending standards overall, REITs have demonstrated an access to capital not available to private real estate investors
- The troubled office sector represents only 5% of the listed REIT investment universe

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