UBS

UBS Asset Management

For professional / qualified / institutional investors only.

All data as at 30 September 2021

ZENITH FUND AWARDS 2020 WINNER

UBS CBRE Property Securities Fund

September 2021

Fund description

The Fund is an actively managed fund investing in a portfolio of 15 – 25 mainly Australian property and property related 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 sector allocation with bottom-up individual stock selection.

Top-down sector 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.

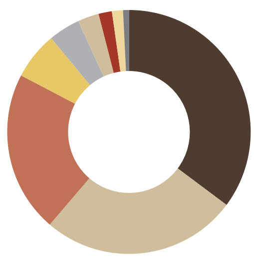
Investment return objective

The Fund aims to outperform (after management costs) the S&P/ASX 300 Property Accumulation Index over rolling three year periods.

Fund information

Inception date	1 February 1993
Fund size	$ 318.3 m
Management fee	0.85% pa
Minimum initial investment	$50,000
Typical number of holdings	15 to 25
Distributions	Quarterly
Buy/sell spread	+/- 0.25%
APIR code	SBC0816AU

Investment portfolio (%)



Diversified REITs	35.20
Retail REITs	26.07
Industrial REITs	21.40
Office REITs	6.30
Specialised REITs	4.19
Other	2.82
Diversified Real Estate Activities	1.77
Real Estate Development	1.47
Cash	0.78

Active security positions

Overweight	Underweight
Vicinity Centres	Goodman Group
Mirvac Group.	Scentre Group
Charter Hall Group	GPT Group
Shopping Centres Australasia Property Group RE Ltd	Charter Hall Long WALE REIT
APN Industrial REIT	National Storage REIT

Investment performance

Fund	1 month %	3 months %	1 year %	3 years % pa	5 years % pa	Since inception* % pa
Total return	(2.16)	5.18	34.12	13.44	10.22	8.30
Benchmark**	(1.94)	4.80	30.69	9.20	7.65	8.61
Added Value	**(0.22)**	**0.38**	**3.43**	**4.24**	**2.57**	**(0.31)**

*Inception date: 1 February 1993. **S&P/ASX 300 Property Accumulation Index. Prior to 1 June 2012, the benchmark was 85% S&P/ASX 300 Property Accumulation Index, 15% EPRA NAREIT developed index (hedged in AUD).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 delivered a 5.18% return in the September quarter outperforming the benchmark return of 4.80% (S&P/ASX 300 AREIT Index). While the quarter was positive from an absolute and relative perspective, A-REITs took a breather in the month of September with 1) retail/value names outperforming as the reopening trade gathered momentum, and 2) a selloff in the 10-year bond yields 1.49% (+33bp) acted as a sector headwind. The portfolio was down -2.2% in September, modestly underperforming the benchmark (-1.9%). In the past 12 months the fund has delivered a 34.12% return materially outperforming the benchmark's 30.69% return.

Positive contributors to relative performance for the month came from overweight exposures to fund manager HomeCo (+18.4%), land lease communities group Lifestyle Communities (+13.2%) and an underweight to underperforming Goodman Group (-6.3%). HomeCo's assets under management and earnings was boosted following successful capital raising efforts in recent month's with HomeCo Daily Needs REIT acquiring A$220m of assets, partly funded via an A$88m placement. HealthCo REIT (new HomeCo's sponsored REIT) successfully debuted in early September after an initial public offering (IPO) raising A$650m in August. Detractors to relative performance came from underweights to outperforming Scentre (+4.9%) and GPT Group (+4.5%), with both groups boosted by continued momentum from the reopening trade. Lend Lease (-9.1%) overweight dragged on performance as the market continued to digest re-based guidance and a cautious tone for FY22 outlook.

Market review

The Australian REIT market (S&P/ASX 300 A-REIT Index) was down -1.9% in September, in line with the broader S&P/ASX 300 Index down -1.9% MoM. For the rolling 12-months, the A-REIT index has returned +30.7%, marginally underperforming the broader market which has returned +30.9%.

Locally focused retail and office generally outperformed in September with Scentre Group, GPT Group and Charter Hall Retail all rising approximately 5%. We saw a continuation of the vaccination trade with the NSW and VIC governments further laying out their plans to reopen hospitality, retail and other public areas in a measured way once vaccination rates move through 70% and higher in the coming months.

Higher growth names such as Charter Hall Group (-4.0%) and Goodman Group (-6.3%) were laggards in September, breaking a strong run of positive performance. Both groups underperformed given their growth-orientated nature (which was generally out of favour in September), heightened sensitivity to rising bonds (+33bp MoM), low dividend yield and relatively high P/E multiple attributable to growing funds under management and strong thematic outlook for the Industrial asset class. Globally, Industrial peers to Goodman Group were also lower by ~7.5% MoM as the market shifted focus away from growth globally and toward economically sensitive reopening stocks.

It was quite an acquisitive month in September with several REITs taking advantage of strong recent share price performance to raising equity. Over A$1.0b in new equity was raised to help fund acquisitions in a variety of sectors including Industrial, Office, Retail and Hotels. We expect a continuation of this equity raising trend to assist acquisition funding given supportive equity and debt-capital markets. In the industrial sector, APN Industria REIT (ADI) announced their intention to acquire interests in a portfolio of industrial properties and development opportunities in conduction with Dexus (DXS) for A$1.5b (ADI share A$368m) at an average yield of 5.0%. ADI largely funded their portion of the purchase via an equity raising of approximately A$350m. Centuria Industrial REIT (CIP) announced a $325m capital raising to help fund the acquisition of eight industrial assets for just over $350m at an average cap rate of 4.2%. The portfolio is 100% occupied with a WALE of 3.8 years.

M&A activity re-surfaced in September, reaffirming investors strong appetite for physical real estate, particularly in situations where listed-REITs are trading at discounts to their underlying real estate value. Charter Hall Long WALE REIT (CLW) and a Charter Hall Group (CHC)-managed fund announced they had entered a scheme of arrangement to acquire all issued securities of ALE Property Group (LEP) on a 50:50 basis. The implied consideration is a 25% premium to LEP's last close price of $4.70 on the prior day (17-Sep-2021). LEP's Board unanimously recommended the transaction, absent a superior proposal, with a shareholder vote scheduled for Dec-2021.

Market Outlook

The A-REIT sector has historically performed well (on a relative basis) during periods of above average inflation expectations (a reason for rising bond yields). Real estate stocks are an "inflation protection sector," unlike bonds, income streams grow. Many lease structures have built in fixed, or inflation linked annual increases while other sectors have short duration leases that reprice in the short-term depending on market conditions. Looking back over the past 20-years, A-REITs (S&P/ASX 300 A-REIT Index) has generated over +4% outperformance relative to broader Australian equities (S&P/ASX 300 Index) during periods of above-average inflation. The RBA is committed to keeping the cash rate low for several years despite tapering their purchase of treasury bonds.

Bond yields remain supportive trading well below their 5- and 10-year averages and spreads between direct market cap rates yields remains high vs. history. The A-REIT sector yield (~4%) relationship relative to bonds remains attractive, the current spread is 250bp, vs 190bp historic average. While bond yields have fluctuated YTD, this volatility has not impacted direct real estate investment demand with cap rates compressing 25bp in the 1H2021. The stable cash-flows, attractive yields, and robust balance sheet positions offered by much of the sector remains supportive. Growth per share expected to range from 7% to 9% pa over the next 2-years. Earnings are supported by long lease structures and lower interest costs. Modest leverage remains.

The Fund is maintaining a relatively balanced exposure to value and growth-orientated names. Positioning is towards companies with balance sheet capacity, quality assets & management teams whilst also selectively exposed to several deeper value REITS which will benefit from a pickup in economic conditions. The Fund is strategically positioned to take advantage of attractive long dated structural themes like Industrial, Land Lease Retirement Communities, Essential Services, Agriculture and Childcare. The fund has selectively overweight exposure towards Residential which is benefiting from positive market conditions including low interest rates and a preference for relatively attractive Fund Managers which are benefiting from rising asset values driving stronger earnings growth. We remain selective on discretionary retail and office which are both facing structural headwinds. We continue to see current valuations as compelling. Recent transactions in the Direct real estate market in Australia have illustrated the wide arbitrage between listed and direct property markets and should these discounts persist we expect to see a continuing pickup in corporate activity (M&A). M&A appeal is supported by cheap cost of debt, falling required returns from global investors and relative attractiveness of the Australian property market and this activity will ultimately help to support listed share prices.

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