

UBS Property Securities Fund

April 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.

Active security positions

Overweight	Underweight
Ingenia Communities Group	Scentre Group
Vicinity Centres	GPT Group
Mirvac Group	Charter Hall Long WALE REIT
Dexus	Stockland
Charter Hall Group	BWP Trust

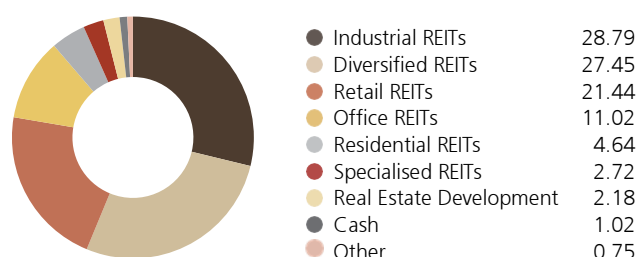
Investment performance

Fund	1 month %	3 months %	1 year %	3 years % pa	5 years % pa	Since inception* % pa
Total return	3.63	7.66	35.85	11.33	8.67	7.94
Benchmark**	3.08	6.86	31.81	7.50	6.02	8.29
Added Value	0.55	0.80	4.04	3.83	2.65	(0.35)

Fund information

Inception date	1 February 1993
Fund size	\$265.8 m
Management fee	0.85% pa
Minimum initial investment	\$10,000 (via mFund and online application \$5,000)
Typical number of holdings	15 to 25
Distributions	Quarterly
Buy/sell spread	+/- 0.25%
APIR code	SBC0816AU
mFund code	UAM11

Investment portfolio (%)



*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 +3.63% return in April outperforming the benchmark return of +3.08% (S&P/ASX 300 AREIT Index). In the past 12 months the fund has delivered a +35.85% return materially outperforming the benchmark's +31.81% return. The AREIT sector was supported by positive quarterly updates including several earnings upgrades, signs of improving leasing conditions and further supportive evidence in the direct real estate market.

Positive contributors to relative performance came from overweight exposure to Mirvac Group which upgraded earnings guidance driven by stronger residential sales activity, whilst overweight exposure to fund managers Home Consortium and Charter Hall Group also benefited from expectations of higher asset valuations and earnings. Underweight exposure to retail landlord Scentre Group was another positive contributor to relative performance with investors preferring higher growth sectors.

Detractors to relative performance came from an overweight to retail exposed Vicinity Group and Shopping Centre Australia which both underperformed whilst the underweight to Stockland Group was also a negative contributor to relative performance, after delivering a strong quarterly update reflecting continued positive residential sales momentum.

Market review

The Australian REIT market (S&P/ASX 300 A-REIT Index) rose +3.1% in April, underperforming the broader equity market which rose +3.5% (S&P/ASX 200 Index). A host of positive quarterly updates, several earnings upgrades and continued positive transaction evidence helped to support the sector.

Stockland, Mirvac and Charter Hall Group all outperformed over the month after providing improved earnings guidance driven by improved residential sales activity and firmer than expected asset valuations. Residential conditions remain supportive to developers with both Stockland and Mirvac reporting continued positive sales momentum in the March quarter with upgraders and investors taking over from the first home buyers which led the recovery in 2020. House prices rose 3% in the month of March alone and are now up 30% in selected regions helping to support margins for residential developers.

Transaction activity continues to remain firm with Singaporean based ESR winning the highly competitive bid process for Blackstones industrial portfolio, paying \$3.8bn for the portfolio of 45 industrial assets reflecting a yield of ~4.1%. The sales price and depth of bidding is expected to support further upside to industrial valuations in June. There has also been a pickup in transaction activity in the neighbourhood and bulky goods retail sector with several transactions suggesting cap rates are also likely to firm across this subsector. There remains little evidence across the regional mall subsector.

AREITs continue to focus on growing their Funds management platforms with Dexs successful in its proposal to take over management of AMP's diversified wholesale funds and merge with its own fund. The merger will see Dexs increase its FUM by its wholesale diversified

fund with AMP's \$5.4bn and will likely sell some retail assets to help meet redemption requests from some existing investors. Centuria Capital also announced a merger proposal with PrimeWest in a deal which will increase Centuria's FUM by 4.5bn to \$15bn and broaden its sector exposure into non-discretionary retail, bulky goods and the western Australian office market.

Underperformers included mall landlords Scentre Group and Vicinity Group as investors grew cautious on a moderation in retail sales activity following a roll-off of stimulus measures. GPT was also softer after a weak quarterly update which showed a decline in its office and industrial occupancy and no change to its earnings guidance for the year.

Market Outlook

The appreciation of the 10 year bond yield in recent months did initially spook some investors in the sector (as reflected in recent share price weakness). Despite this bond yields still remain supportive vs historical levels, the RBA is committed to keeping the cash rate low for several years whilst also actively buying treasury bonds. With some of the fiscal stimulus to roll off in coming months, the stable cash-flows, attractive yields, and robust balance sheet positions offered by much of the sector remains attractive. The listed AREIT market is already pricing in modest economic activity and there remains resilient regions, property sectors, and companies that we continue to believe are attractively priced.

The sector is currently trading at a discount to our assessment of Net Asset Value (in many cases conservatively incorporating asset value falls), is offering an attractive dividend yield spread over government bonds (even after the recent rise on bond yields and trading on a significant PE discount to broader equities). Unlike the GFC, AREITs are in a much stronger balance sheet position with average gearing at ~26% vs almost 40% leading into the GFC. Active share buybacks from many of the better capitalized AREITs should also help to support share prices.

The Fund remains positioned 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 and childcare whilst also holding some selective residential exposure which is benefiting from government stimulus. We remain cautious on discretionary retail and selective in office exposure. 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 pickup in corporate activity (M&A) in 2021. 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.

Client Services

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