

UBS CBRE Property Securities Fund

December 2022

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.

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 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 objective

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

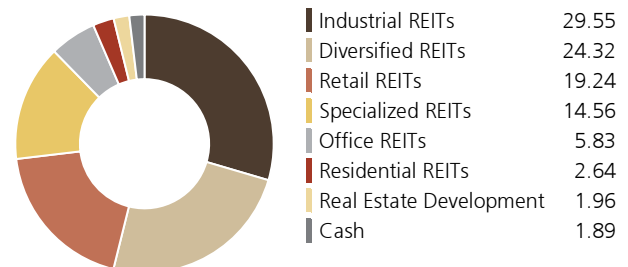
Top 10 positions by stock

Name	Country	Portfolio Weight (%)
Goodman Group	Australia	26.78
Scentre Group	Australia	14.15
Mirvac Group	Australia	9.28
Dexus	Australia	5.83
Charter Hall Group	Australia	5.59
Vicinity Centres	Australia	4.52
GPT Group	Australia	4.43
Arena REIT	Australia	4.18
National Storage REIT	Australia	4.15
Rural Funds Group	Australia	3.85
Top 10 Total		82.76

Fund information

Inception date	1 February 1993
Fund size	\$ 279.3m
Management fee	0.85% pa
Minimum initial investment	\$ 50,000
Distributions	Quarterly
Buy/sell spread	+/- 0.20%
Currency management	Unhedged
APIR code	UBS0064AU

Investment portfolio (%)



Top 5 overweight by stocks

Name	Country	Active Weight (%)
Rural Funds Group	Australia	3.10
Arena REIT	Australia	3.09
Goodman Group	Australia	2.51
Mirvac Group	Australia	2.41
National Storage REIT	Australia	2.10

Top 5 underweight by stocks

Name	Country	Active Weight (%)
Stockland	Australia	(3.93)
Region Group	Australia	(2.51)
Charter Hall Long WALE REIT	Australia	(2.36)
GPT Group	Australia	(2.14)
Vicinity Centres	Australia	(1.80)

Investment performance

Fund	1 month %	3 months %	1 year %	3 years % pa	5 years % pa	Since inception* % pa
Total return	(4.82)	11.27	(22.23)	0.15	5.36	7.36
Benchmark**	(4.04)	11.56	(20.06)	(0.83)	3.79	7.77
Added Value	(0.78)	(0.29)	(2.17)	0.98	1.57	(0.41)

* 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 performance

The Fund declined by -4.82% during December, underperforming the S&P/ASX 300 AREIT Index by -0.78%.

During the month, the top contributor to performance was the Fund's underweight position in HMC Capital, which was removed from the FTSE EPRA NAREIT Global Real Estate Index during its quarterly rebalance. The Fund also benefited from an overweight position in Arena REIT, which released a positive market update headlined by strong rental growth and valuation increases. The Fund continues to be attracted to the childcare sector due to strong operator profitability and increasing levels of government support.

Monthly detractors to performance include the Fund's overweight position in Rural Funds Group, which increased its interest rate hedging profile after securing a key 40-year lease to develop macadamia orchards by 2024. We continue to believe Rural Funds Group is well placed to grow via their strategy of agricultural land conversion to its highest and best use. The Fund's overweight position in Charter Hall Group also detracted from performance, following announcements that global investment funds were limiting redemption requests. We are encouraged by Charter Hall's growth outlook, with the fund manager having significant investment capacity to fund ongoing transaction activity and platform expansion.

Market review

The Australian REIT market (S&P/ASX 300 A-REIT Index) declined by -4.0% in December, underperforming the broader S&P/ASX 300 which declined by -3.3%.

Preliminary asset valuations demonstrated capitalisation rate expansion across the sector. Valuation softening was felt most strongly in assets with limited expected income growth or the ability to reprice rents quickly. In aggregate, the impact of cap rate expansion has largely been offset by rental increases, resulting in average book value declines of 1.6%.

During the month, Centuria Industrial REIT established a joint venture partnership with Morgan Stanley Real Estate Investing, divesting a 50% stake in a portfolio of eight assets for \$181m, reflecting a 4.7% yield and 2% discount to June book values. This transaction alleviates balance sheet pressure and demonstrates value across the portfolio, which is currently deeply discounted by implied market pricing.

Additionally, 360 Capital amassed a 14.4% stake in Hotel Property Investments, signalling potential M&A within the sector.

Macroeconomic data releases presented mixed outcomes during the month. The labour market remains tight, with the unemployment rate unchanged at 3.4% alongside a rise in the participation rate. In contrast, the residential market is responding to higher interest rates, recording the seventh consecutive monthly decline in national house prices. We anticipate residential prices and sales volumes will remain under pressure until interest rates stabilise.

Market outlook

A continuing theme facing markets is rising rates and inflation. Real estate securities provide a strong hedge in a rising inflation environment given lease structures typically benefit from either CPI or fixed increases. Our proprietary analysis suggests over the past twenty years, Australian REITs have outperformed broader Australian equities during periods of above-average inflation.

A-REITs are well-positioned with improving fundamentals and a defensive growth outlook. The Fund is maintaining a relatively balanced exposure to value and growth-orientated names. Positioning is towards companies with balance sheet capacity, quality assets and aligned management teams, whilst also selectively exposed to several deeper value real estate securities which benefit from the economic recovery. The Fund is strategically positioned to take advantage of attractive long-dated structural themes such as industrial, essential services, agriculture, and childcare.

Compelling valuation support has emerged with the sector trading at an 16% discount to net asset value. Balance sheets are healthy with moderate gearing levels. As market volatility persists, we anticipate the Australian REIT sector's resilient cash flows will be highly sought after.

Client Services

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

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