

# UBS Property Securities Fund

May 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.

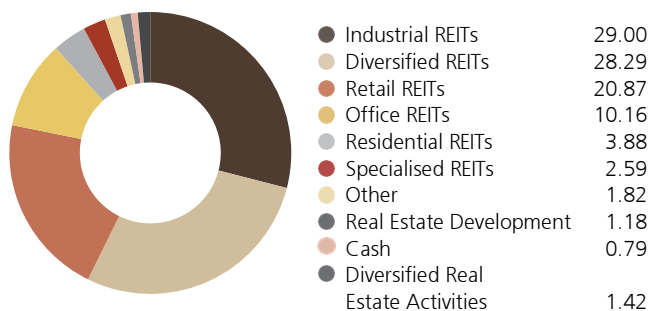
## Investment return objective

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	\$274.9 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 (%)



## Active security positions

Overweight	Underweight
Mirvac Group	Scentre Group
Vicinity Centres	GPT Group
Ingenia Communities Group	Charter Hall Long WALE REIT
Charter Hall Group	Stockland
Shopping Centres Australasia Property Group RE Ltd.	BWP Trust

## Investment performance

Fund	1 month %	3 months %	1 year %	3 years % pa	5 years % pa	Since inception* % pa
Total return	1.96	13.03	28.73	11.04	8.48	7.99
Benchmark**	1.78	11.52	25.32	7.08	5.83	8.33
<b>Added Value</b>	<b>0.18</b>	<b>1.51</b>	<b>3.41</b>	<b>3.96</b>	<b>2.65</b>	<b>(0.34)</b>

\*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 1.96% return in May, outperforming the benchmark return of 1.78% (S&P/ASX 300 AREIT Index). In the past 12 months, the fund has delivered a 28.73% return, materially outperforming the benchmark's 25.32% return. The AREIT sector was supported by positive quarterly updates including several earnings upgrades, supportive government budget, 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 Ingenia Communities which provided a positive quarterly update noting unprecedented demand levels across their tourism parks and strong sales enquiries across their lifestyle retirement villages. Underweight exposure to retail landlords Scentre Group and GPT also added to relative performance with the Melbourne lockdowns expected to moderate the speed of recovery, whilst transaction evidence remains absent across the larger mall sector. The funds exposure to the childcare theme through landlord, Charter Hall Education Trust also contributed to relative performance following positive stimulus provided from the federal budget.

Detractors to relative performance came from an overweight to retail exposed Vicinity Group and Home Consortium. Vicinity's illustrated its Melbourne & CBD focused assets were lagging the broader recovery in retail sales. Home Consortium underperformed having been a strong outperformer in preceding months, despite the company acquiring \$132m of medical and childcare assets ahead of a planned health focused IPO expected late in 2021. Residential developer Peet & Co also underperformed despite raising \$75m of new debt at 5%, well below its existing passing debt costs.

## Market review

The Australian REIT market (S&P/ASX 300 A-REIT Index) rose +1.8% in May, underperforming the broader equity market which rose 2.3% (S&P/ASX 200 Index). Positive quarterly updates, supportive measures from the Federal budget and continued positive transaction evidence helped to support the sector over the month.

Increased funding towards the childcare sector helped to support childcare landlords with both Arena REIT and Charter Hall Social Infrastructure outperforming over the month.

Discretionary retail exposed stocks broadly underperformed in the month, despite most retail AREITs exhibiting signs of improving footfall and retail sales in the third quarter. Conditions remain challenging with retail re-leasing spreads still being negative and transaction evidence broadly absent for assets >\$250m. There is an expectation that several large retail malls may come to market over the next 6 months following Dexus' new management control of AMP's Diversified Fund with a mandate to provide liquidity to existing investors.

Residential markets remain firm with house prices rising another 2.3% in May and increasing evidence of improving sales across the apartment sales along with house and land market. Ingenia and Mirvac were both strong performers over the month as investors gain more conviction their upcoming launch programs will be well supported.

Office physical occupancy is improving but remains soft with recent data suggesting Sydney occupancy was back at 6%, Brisbane 63% and Melbourne 41%. Leasing sentiment has improved with signs tenants are more willing to sign deals. Valuations appear likely to remain well supported and potentially even increase with AMP's sale of 200 George Street in Sydney attracting strong bidding interest well above the current book valuation.

Fund managers platforms continue to remain in demand with Dexus bidding \$320m to acquire APN Property Group to gain access to its \$2.9bn of AUM, coming after Centuria's bid the previous month for Primewest Group \$4.5bn of AUM. With asset values continuing to rise and continued institutional demand for direct retail assets, fund management valuations are likely to remain firm.

## Market Outlook

After a strong increase in early 2021, 10-year bond yields appear to have stabilized and whilst higher remain supportive vs historical levels. The RBA is committed to keeping the cash rate low for several years whilst also actively buying treasury bonds. Much of the COVID related fiscal stimulus is rolling off but the economy is showing resilience. The stable cash-flows, attractive yields, and robust balance sheet positions offered by much of the sector remains attractive.

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 buyback programs from many of the better capitalized AREITs also provide some degree of downside support to 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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