

UBS Property Securities Fund

June 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 |
|---|-----------------------------|
| Mirvac Group | Scentre Group |
| Vicinity Centres | GPT Group |
| Charter Hall Group | Charter Hall Long WALE REIT |
| Ingenia Communities Group | National Storage REIT |
| Shopping Centres Australasia Property Group RE Ltd. | BWP Trust |

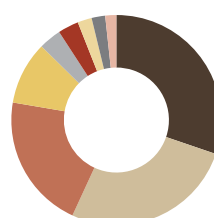
Investment performance

| Fund | 1 month % | 3 months % | 1 year % | 3 years % pa | 5 years % pa | Since inception* % pa |
|--------------------|-------------|-------------|-------------|--------------|--------------|-----------------------|
| Total return | 6.05 | 12.05 | 38.14 | 12.43 | 9.01 | 8.19 |
| Benchmark** | 5.56 | 10.74 | 33.91 | 8.22 | 6.24 | 8.51 |
| Added Value | 0.49 | 1.31 | 4.23 | 4.21 | 2.77 | (0.32) |

Fund information

| | |
|----------------------------|---|
| Inception date | 1 February 1993 |
| Fund size | \$291.6 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 (%)



| | |
|------------------------------------|-------|
| Diversified REITs | 30.24 |
| Industrial REITs | 26.64 |
| Retail REITs | 20.80 |
| Office REITs | 9.70 |
| Residential REITs | 3.46 |
| Specialised REITs | 3.18 |
| Cash | 2.19 |
| Real Estate Development | 2.09 |
| Diversified Real Estate Activities | 1.71 |

*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 +6.05% return in June outperforming, the benchmark return of +5.56% (S&P/ASX 300 AREIT Accumulation Index). In the past 12 months, the fund has delivered a +38.14% return, materially outperforming the benchmark's +33.91% return. The AREIT sector was supported by positive June asset revaluations and moderations in 10-year bond yields.

Positive contributors to relative performance came from overweight exposure to Ingenia Communities, which continues to benefit from stronger residential prices across regional locations, unprecedented demand levels across their tourism parks, and strong sales enquiries across their lifestyle retirement villages. Underweight exposure to retail landlords Scentre Group also added with a pickup in COVID cases and new lockdown restrictions weighing on sentiment. Underweight exposure to National Storage was also a positive contributor following its large capital raising to fund future acquisitions. Overweight to fund managers Charter Hall and Home Consortium also added with rising asset valuations supporting the outlook for future funds management fees.

Detractors to relative performance came from an overweight to retail exposed Vicinity Group, with its dividend update hinting at soft underlying operating performance impacted by the prolonged lockdowns in Melbourne. Lend Lease also detracted from performance. Its new management team has been actively easing investor expectations around a sharp recovery in earnings in the short term. Residential developer Peet & Co also underperformed despite continued strength across the residential land sector.

Market review

The Australian REIT market (S&P/ASX 300 A-REIT Accumulation Index) rose +5.6% in June, outperforming the broader equity market, which rose 2.3% (S&P/ASX 200 Accumulation Index). Positive asset revaluations, supportive transaction evidence and earnings upgrades along with a fall in 10-year bond yields helped support the sector over the month.

The majority of AREIT sector announced June 2021 revaluations over the month with assets revalued up 5% on average incorporating 25bp of cap rate compression. Industrial assets saw the strongest revaluations, up 12%, supported by recent strong transaction evidence. Office valuations were up 3%. Vicinity group reported a 1% fall in valuations across its regional malls. Neighborhood malls were more tightly bid with valuations up 5-10%, whilst long WALE assets rose 9%.

Residential exposed stocks Ingenia Communities (+10%) and Mirvac (+6.5%) were both outperformers over the month. Residential house prices rose another 2.3% in May, continuing the sectors strong run supported by low interest rates and supportive government stimulus policies. Ingenia's shares were also supported by their recent inclusion in the EPRA Nareit Global index and expectations of strong bookings across their domestic tourism portfolio of holiday parks.

Fund managers outperformed over the month with Charter Hall (9.7%) supported by 6% revaluations across its portfolio, lifting FUM to \$52bn (up 28% vs the prior year). Charter Hall had already upgraded its FY21 earnings guidance in May. Goodman Group (+9.7%) is also expected to benefit from rising valuations across its industrial portfolio and recent transaction pricing continues to bode well for the prospects of its \$9bn development pipeline.

Office physical occupancy is improving but remains soft with recent data suggesting Sydney occupancy was back at 60%, Brisbane 63% and Melbourne 41%. Leasing sentiment has improved with signs tenants are more willing to sign deals. Valuations are well supported by recent transactions as evidenced by EG Funds management acquiring a portfolio of 3 assets for \$450m. Major office landlord Dexus continues to diversify away from office, participating in Australian unity healthcare fund capital raise (signing an agreement to participate in future development opportunities) and completing its acquisition of APN's funds management platform.

Retail exposed AREITs Scentre Group (+0.7%) and Vicinity Group (+3.2%) were broadly underperformers over the month with a pickup in new COVID cases and new movement restrictions across several states. This has renewed concerns over the potential impact on retail sales at large discretionary malls. Vicinity group provided a dividend guidance to the market, which was above prior expectations, but management cautioned that underlying operational performance remained soft due to the impact of the Melbourne lockdowns in recent months.

Other underperformers included National Storage REIT (-2.7%) which announced a \$325m equity issuance to replenish its investment capacity, whilst Cromwell (-1.6%) continues to underperform with a new CEO yet to be announced following the departure of longstanding CEO Paul Weightman 6 months ago.

Market Outlook

After a strong increase in early 2021, 10-year bond yields appear to have stabilized, 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 trades 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. 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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