



UBS Property Securities Fund

July 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
Charter Hall Group	GPT Group
Shopping Centres Australasia Property Group RE Ltd.	Scentre Group
Vicinity Centres	Charter Hall Long WALE REIT
Stockland	National Storage REIT
Lendlease Group	Waypoint REIT

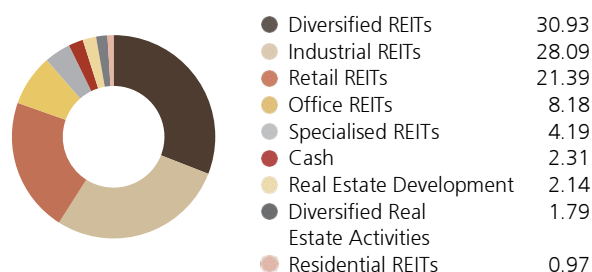
Investment performance

Fund	1 month %	3 months %	1 year %	3 years % pa	5 years % pa	Since inception* % pa
Total return	1.28	9.51	39.44	12.53	8.11	8.21
Benchmark**	0.47	7.94	33.70	8.04	5.24	8.50
Added Value	0.81	1.57	5.74	4.49	2.87	(0.29)

Fund information

Inception date	1 February 1993
Fund size	\$291.5 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 +1.28% return in July, outperforming the benchmark return of +0.47% (S&P/ASX 300 AREIT Accumulation Index). In the past 12 months, the fund has delivered a +39.44% return, materially outperforming the benchmark's +33.70% return. The AREIT sector was supported by further positive June half asset revaluations and moderations in 10-year bond yields, offsetting a deepening of lockdown measures in Greater Sydney.

Positive contributors to relative performance came from underweight exposure to discretionary retail exposed REITs Scentre Group and GPT. GPT withdrew its FY21 earnings guidance due to uncertainty over the new COVID outbreak whilst Scentre Groups 45% exposure to Sydney is also expected to be more heavily impacted by any future tenant abatements. Overweight exposure to fund Managers Home Consortium, Goodman and Charter Hall were all positive contributors to relative performance over the month aided by recent positive asset revaluations.

Detractors to relative performance came from an overweight to Ingenia Communities which fell following a strong month in June after gaining EPRA Global index inclusion. Mirvac also detracted from relative performance with its retail assets expected to be impacted by the recent lockdowns. Mirvac also announced the successful sale of its hotel portfolio at a small premium to book value. An underweight exposure to National Storage also detracted from relative performance despite a lack of company specific news.

Market review

The Australian REIT market (S&P/ASX 300 A-REIT Accumulation Index) rose +0.47% in July, underperforming the broader equity market which rose 1.1% (S&P/ASX 200 Accumulation Index). A pickup in new COVID cases associated with the Delta strain resulted in lockdowns across Australia with Sydney expected to remain in lockdown until at least the end of August and likely longer. Whilst many of the retail exposed sector underperformed the wider sector still rose over the month aided by positive asset revaluations, supportive transaction evidence and falls in 10-year bond yields.

Across the retail sector Scentre Group, Vicinity Centres and GPT were all underperformers with most non-essential retail closed across Sydney. GPT withdrew its FY21 earnings guidance due to uncertainty over the duration of the lockdowns and other retail exposed names are expected to hold off providing guidance for FY22 at upcoming results.

Despite the lockdowns transaction activity for commercial real estate remained firm with several large office assets trading including Dexu's acquisition of Capital Square in Perth and M&G acquiring 200 George St in Sydney on a tight 4.1% yield reflecting the strong demand for Prime office assets. Neighbourhood retail assets remain in high demand with over \$900m of transactions completed in the month, with investors attracted to the high level of non-discretionary retail exposure. Waypoint sold a \$114m portfolio of Petrol stations at a 10% premium to book value whilst Mirvac sold a \$620m portfolio of Hotels at a small premium to book value.

Residential exposed stocks underperformed in July despite continued positive residential sales evidence and price growth. Stockland announced the \$620m acquisition of Halcyon Group, owner of a portfolio of 1500 land lease community sites and 2300 development sites. The pricing was well above recent transactions but helps Stockland to become one of the largest players in the fast-growing sub-sector. Ingenia Communities one of the largest listed companies in the sub-sector was also down over the month despite providing a 10% upgrade to its FY21 earnings guidance on the back of stronger sales and tourism revenue.

Fund managers were major outperformers over the month with Charter Hall (5%) supported by 6% revaluations across its portfolio lifting its FUM to \$52bn (up 28% vs the prior year), Charter Hall had already upgraded its FY21 earnings guidance in May. Goodman group (+6.9%) 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. Centuria Capital (+5%) completed its merger with Primewest Group and is also benefiting from positive fund inflows and asset revaluations.

Office stocks were broadly softer despite the firm transaction evidence as the expected return to office trend was delayed further. Physical occupancy had been showing signs of improving with Sydney occupancy back at 60%, Brisbane 63% and Melbourne 41% prior to the recent lockdowns but is expected to be further delayed. Tenant enquiry had improved over the June quarter and available sublease space contracted but current restrictions are likely to put a pause on this trend.

Market Outlook

After a strong increase in early 2021, 10-year bond yields appear to have stabilized and remain supportive vs historical levels, the RBA is committed to keeping the cash rate low for several years despite tapering their purchase of 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. Outside of the discretionary retail and office sectors we expect to see a relatively robust outlook commentary provided by most of the AREIT sector during the upcoming reporting season which should provide investors with more confidence.

The AREIT sector is currently offering investors a triple discount; trading below our assessment of Net Asset Value, a wider dividend yield spread over bonds vs history, and a PE discount to broader Equities. Unlike the GFC, AREITs are in a much stronger balance sheet position with average gearing at ~27% vs almost 40% leading into the GFC. Active share buyback programs remain available for many of the better capitalized AREITs providing 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.

Client Services

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

Investors should consider the PDS and seek professional financial and taxation advice before deciding whether the product is appropriate for them and whether to acquire, or to continue to hold the investment. Your investment in the Fund does not represent deposits or other liabilities of UBS or any member company of the UBS Group including UBS Asset Management (Australia) Ltd (ABN 31 003 146 290) (AFS Licence No. 222605), the issuer of the Fund. Your investment is subject to investment risk, including possible delays in repayment and loss of income and capital invested. The repayment of capital or income is not guaranteed by any company in the UBS Group. Offers of interests in the Fund are contained in the Product Disclosure Statement dated 30 November 2020. The PDS is available from our website www.ubs.com/am-am-pds or by calling (03) 9046 4041.

The PDS for this fund is only available to persons receiving the PDS (electronically or otherwise) while physically in Australia, unless expressly authorised by us in writing. The offer does not constitute an offer or invitation in any place in which, or to any person to whom, it would be unlawful to make such an offer or invitation. This Fund (or the PDS) has not been registered under the laws of any jurisdiction outside Australia. The Fund may not be offered or sold in the United States of America or to 'U.S. Persons' (as defined in 'Regulation S' of the Securities Act of 1933, as amended).

The Zenith Fund Awards were issued 30 October 2020 by Zenith Investment Partners (ABN 27 130 132 672, AFSL 226872) and are determined using proprietary methodologies. The Fund Awards are solely statements of opinion and do not represent recommendations to purchase, hold or sell any securities or make any other investment decisions. To the extent that the Fund Awards constitutes advice, it is General Advice for Wholesale clients only without taking into consideration the objectives, financial situation or needs of any specific person. Investors should seek their own independent financial advice before making any investment decision and should consider the appropriateness of any advice. Investors should obtain a copy of and consider any relevant PDS or offer document before making any investment decisions. Past performance is not an indication of future performance. Fund Awards are current for 12 months from the date awarded and are subject to change at any time. Fund Awards for previous years are referenced for historical purposes only.

This document may not be reproduced or copies circulated without prior authority from UBS Asset Management (Australia) Ltd.

