



UBS Property Securities Fund

August 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.

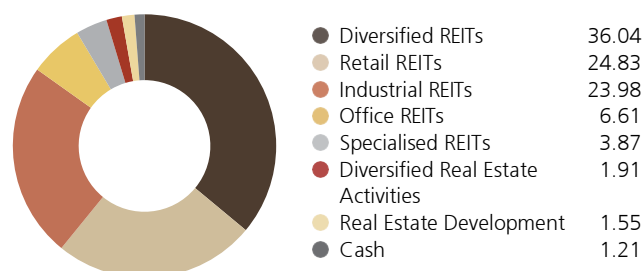
Investment return objective

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	\$ 324.7m
Management fee	0.85% pa
Minimum initial investment	\$10,000
Typical number of holdings	15 to 25
Distributions	Quarterly
Buy/sell spread	+/- 0.25%
APIR code	SBC0816AU

Investment portfolio (%)



Active security positions

Overweight	Underweight
Vicinity Centres	Scentre Group
Shopping Centres Australasia Property Group RE Ltd.	GPT Group
Charter Hall Group	Goodman Group
Stockland	Charter Hall Long WALE REIT
Mirvac Group	National Storage REIT

Investment performance

Fund	1 month %	3 months %	1 year %	3 years % pa	5 years % pa	Since inception* % pa
Total return	6.15	14.02	36.56	13.75	9.71	8.41
Benchmark**	6.38	12.81	31.75	9.35	7.13	8.71
Added Value	(0.23)	1.21	4.81	4.40	2.58	(0.30)

*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 6.15% return in August underperforming the benchmark return of 6.38% (S&P/ASX 300 AREIT Index). In the past 12 months the fund has delivered a 36.56% return materially outperforming the benchmark's 31.75% return. With reporting season now complete, AREIT's continued to be supported by strong net tangible asset (NTA) value per share gains of over +8% on average for the year. Portfolio cap rates firmed by an average of 25bp for 1H21 and 38bp over the year. The sectors that showed the strongest cap rate compression was Industrial, non-discretionary (daily needs) retail, Large Format Retail, long WALE sectors and alternative asset classes such as Childcare. Discretionary regional mall cap rates were generally flat while Office cap rates compressed modestly.

Positive contributors to relative performance came from overweight exposure to discretionary retail exposed REITs Vicinity Centres, Fund Managers Centuria Capital, Home Consortium, Charter Hall and an underweight to BWP Trust. The market saw fit to look through Vicinity Centres mixed FY21 result, lack of FY22 earnings guidance and current COVID lockdowns in various states, preferring to focus on the potential for a "reopening trade" in the latter part of 2021 which should see strong growth for Retail REITs cash collection and retail sales.

Detractors to relative performance came from an underweight to Scentre Group which rose following a weak month in July and overweight to Lend Lease Group which fell -1% following an under-whelming FY21 result that was at the bottom end of re-based guidance and cautious tone for FY22 outlook. Later in the month, new Lend Lease CEO Tony Lombardo presented an outline of the company's strategy for the next few years, including a stream-lined operating structure, a \$160 million annual cost-savings plan and a pathway to improve ROIC targets for the Group.

Market review

The Australian REIT market (S&P/ASX 300 A-REIT Index) rose +6.4% in August, outperforming the broader equity market which rose 2.5% (S&P/ASX 200 Index). For the rolling 12-months, A-REITs have returned +31.8%, outperforming the broader market which has returned 28.1%. COVID cases associated with the Delta strain continued to rise through the month resulting in continued lockdowns across many parts of Australia with the Greater Sydney lockdown extended until at least the end of September and likely longer.

Retail sector stocks bounced back in August with Scentre Group (+12.6%) and Vicinity Centres (+11.3%) outperforming on the back of 1) the vaccination trade with the NSW government looking to at least partially reopen when the vaccination rate hits 70% –estimated in to be late October or early November and 2) retail reporting season results that were in aggregate in-line or ahead of the markets cautious expectations. Scentre Group's (SCG) result benefited from reduced COVID impacts in the first half of 2021.

Operating metrics & sales improved with strong cash collection at close to pre COVID levels, albeit July monthly cash collection (-17% on prior months) was impacted by new lockdown restrictions. Despite the new lockdown measures, SCG maintained 2021 dividend per share guidance of 14 cents (provided restrictions ease by end of October).

Residential exposed stocks were mixed in August despite reporting upbeat FY21 results supported by continued positive residential sales evidence and price growth. Mirvac (MGR) and Stockland (SGP) both exceeded their FY21 residential settlement volume expectations with MGR settlements of ~2,526 lots a positive relative to management's original expectations of >2,200 lots. SGP delivered 19% growth in settlements to 6,374 lots, comfortably exceeding previous guidance of >6,000 lot settlements in FY21. Both groups provided confident residential settlement outlooks, SGP guiding to >6,400 settlements in FY22, despite potential production delays at certain projects and MGR guided to >2.500 lot settlements, indicating >90% of residential earnings has already been secured.

Fund managers were strong outperformers over the month with Centuria Capital (+17%) while Home Consortium and Charter Hall were both up over 9% in August aided by 1) strong FY21 results releases and FY22 outlooks that typically beat consensus and 2) positive asset revaluations supporting Assets under Management (AUM) and fee revenue growth. Centuria Capital (CNI) has grown AUM to \$17.4bn (+71% vs Dec-20), benefiting from positive fund inflows and asset revaluations coupled with strong in-organic growth, consummating its mergers with Primewest Group and Bass Capital platforms. CNI provided solid FY22 guidance for 10% growth in both earnings and dividend growth per share. Company guidance reflects \$2.75 billion of acquisitions, reflection +16% growth in AUM (to >\$20 billion).

Market Outlook

Bond yields remain supportive trading well below their 5- and 10-year averages and spreads between direct market cap rates yields remains high vs. history. The A-REIT sector yield (~4%) relationship relative to bonds remains attractive, the current spread is 270bp, vs 190bp historic average. While bond yields have fluctuated YTD, this volatility has not impacted direct real estate investment demand with cap rates compressing 25bp in the 1H21. The stable cash-flows, attractive yields, and robust balance sheet positions offered by much of the sector remains supportive. The sector is trading at a discount Net Asset Value (NAV), with growth per share expected to range from 7% to 9% pa over the next 2-years. Earnings are supported by long lease structures and lower interest costs. Modest leverage remains.

The A-REIT sector has historically performed well (on a relative basis) during periods of above average inflation expectations (a reason for rising bond yields). Real estate stocks are an "inflation protection sector," unlike bonds, income streams grow. Many lease structures have built in fixed, or inflation linked annual increases while other sectors have short duration leases that reprice in the short-term depending on market conditions. Looking back over the past 20-years, A-REITs (S&P/ASX 300 A-REIT Index) has generated over +4% outperformance relative to broader Australian equities (S&P/ASX 300 Index) during periods of above-average inflation.

The RBA is committed to keeping the cash rate low for several years despite tapering their purchase of treasury bonds. While we are in the midst of another period of lockdowns in certain parts of the country, the economy is showing resilience YTD and the expectation is economies will begin to re-open as we approach the latter part of 2021 in concert with steadily rising vaccination rates.

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, Agriculture and Childcare. The fund has an overweight exposure towards Residential which is benefiting from government stimulus and low interest rates and a preference for Fund managers which are benefiting from rising asset values driving stronger earnings growth. We remain selective on discretionary retail and office which are both facing structural headwinds. 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). 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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