



# UBS CBRE Property Securities Fund

October 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.

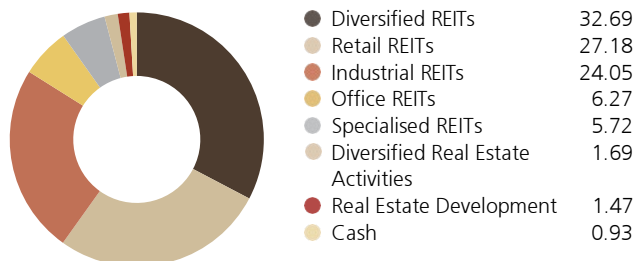
## Investment return objective

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	\$ 321.8 m
Management fee	0.85% pa
Minimum initial investment	\$50,000
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	Goodman Group
Mirvac Group.	GPT Group
Dexus Industrial REIT	Scentre Group
Charter Hall Group	Charter Hall Long WALE REIT
Rural Funds Group	National Storage REIT

## Investment performance

Fund	1 month %	3 months %	1 year %	3 years % pa	5 years % pa	Since inception* % pa
Total return	0.22	4.09	34.44	14.88	12.08	8.29
Benchmark**	0.60	4.94	31.85	10.58	9.52	8.61
<b>Added Value</b>	<b>(0.38)</b>	<b>(0.85)</b>	<b>2.59</b>	<b>4.30</b>	<b>2.56</b>	<b>(0.32)</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 Fund delivered a +0.22% return during October, underperforming the S&P/ASX 300 AREIT Index by -0.6%. The Fund continues to significantly outperform its benchmark over the past twelve months with strong relative contribution from the pure play fund managers (Home Consortium and Goodman Group) and selective residential exposures (Lifestyle Communities and Stockland). During October, Vicinity Centres was the strongest contributor to relative performance on the back of increased market transactional activity and broader evidence of price discovery within the discretionary retail sector. Alternative asset class exposures such as agriculture and childcare were also strong contributors to the Fund's performance during the month. Detractors to performance included Mirvac Group, which delivered a solid quarterly result but sold off in late October due to macroeconomic concerns and a sharp rise in bond yields. HomeCo Daily Needs REIT was another detractor to Fund performance as a result of its friendly scrip-based takeover offer to merge with Aventus Group.

## Market review

The Australian REIT market (S&P/ASX 300 A-REIT Index) gained +0.6% in October versus the broader S&P/ASX 300 (+0.1%). For the rolling twelve months, the A-REIT index has returned +31.9%, outperforming the broader market which has returned +28.6%.

October witnessed a record level of monthly transactional activity, including the first material price discovery in regional retail assets since pre-COVID. This included the 80% sale of Pacific Fair and 50% of Macquarie Centre for \$2.2bn, representing 4.75% and 4.50% capitalisation rates respectively. In addition, Wollongong Central transacted for \$420m during the month, representing a 6.0% initial yield. Importantly, these transactions were struck at prevailing book values and provided genuine evidence that discretionary retail valuations have stabilised, whilst positive COVID outcomes and the broader easing of government-mandated restrictions underpinned the monthly performance of discretionary retail REITs during the period.

Other notable transactions during the period included a LOGOS led consortium agreeing to acquire 14 hectares of Mascot land for \$802m, which includes a 38,900sqm distribution centre and approximately 100,000sqm of developable land. Meanwhile, GPT Group and MA Financial jointly acquired a portfolio of 27 logistics and office assets from Ascot Capital for \$800m, representing an initial yield of 4.3%.

Broader corporate activity also accelerated during the period, led by Aventus Group receiving a friendly \$2.2bn takeover proposal from HomeCo Consortium and HomeCo Daily Needs REIT. Similarly, Irongate Group received a \$1.1bn takeover offer from 360 Capital, however this was subsequently rejected by the Irongate Board on the basis of undervaluing the company.

We anticipate an elevated level of corporate activity to persist given the global pool of capital seeking deployment into core, institutional grade real estate.

A number of Groups reported quarterly updates during the period, with a continuation of similar trends observed across property sub-sectors. Residential sales and price growth were exceptionally strong, underpinning forward earnings visibility and profit margins. The non-discretionary retail sector continued to demonstrate its resilience, characterised by strong levels of cash collection and solid tenant sales. Office leasing markets remain challenging, albeit incentive levels within key Sydney and Melbourne markets appear to have stabilised. Core industrial markets are benefiting from strengthening fundamentals and whilst the discretionary retail sector faces structural challenges, the Team is encouraged by recent market evidence validating a stabilisation in valuations.

## Market Outlook

The A-REIT sector has historically performed well (on a relative basis) during periods of rising inflation expectations. The real estate sector provides an inflation hedge and unlike bonds, income streams grow in-line with rental leases. Many lease structures have built in fixed, or inflation-linked annual increases, whilst various property sub-sectors offer shorter duration leases that are able to reprice during favourable market conditions. Looking back over the past 20-years, A-REITs (S&P/ASX 300 A-REIT Index) have generated over +4% out-performance 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 recently tapering their purchase of treasury bonds.

Bond yields remain supportive and continue to trade below longer-term averages, whilst direct transactional evidence continues to underpin listed valuations. The A-REIT sector distribution yield relationship relative to bonds remains attractive and the current spread is approximately 200bps, vs the 190bps historic average, providing valuation support. The sector is trading at a discount to Net Asset Value (NAV) of approximately -2%, with growth per share expected to range from 7% to 9% pa over the next two years. Earnings are underpinned by stable cash flows, long leases, conservative capital structures and low interest costs.

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 REITs which will benefit from the current economic recovery. The Fund is strategically positioned to take advantage of attractive long-dated structural themes such as industrial, land lease retirement communities, essential services, agriculture and childcare. The Fund holds selective overweight exposure towards the residential sector, which is benefiting from positive market conditions including low interest rates.

Similarly, the Team maintains a preference towards the pure-play fund managers, which continue to benefit from rising asset values and increased transactional activity. We remain selective on discretionary retail and office which are both facing structural headwinds.

We continue to see current valuations as compelling. Private market transactional evidence continues to demonstrate a wide arbitrage between listed and direct property markets. Should these discounts persist, we anticipate corporate activity to step in and realise this mispricing. M&A appeal is supported by cheap cost of debt and as return expectations compress globally, the relative attractiveness of the Australian property market will ultimately support listed share prices.

## Client Services

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