



UBS CBRE Property Securities Fund

November 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.

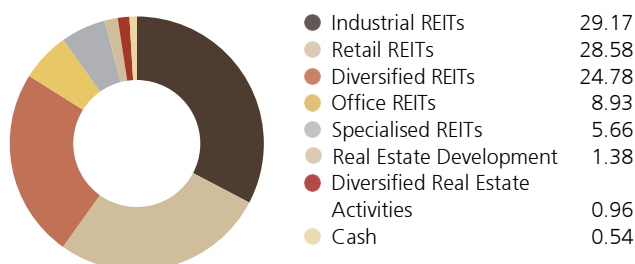
Investment return objective

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	\$ 335.2 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	Stockland
Charter Hall Group	GPT Group
Dexus Industria REIT	Charter Hall Long WALE REIT
Rural Funds Group	National Storage REIT
Home Consortium	Ingenia Communities Group

Investment performance

Fund	1 month %	3 months %	1 year %	3 years % pa	5 years % pa	Since inception* % pa
Total return	3.66	1.64	23.98	16.38	12.94	8.40
Benchmark**	3.96	2.55	21.43	12.12	10.21	8.73
Added Value	(0.30)	(0.91)	2.55	4.26	2.73	(0.33)

*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 3.66% return during November, underperforming the S&P/ASX 300 AREIT Index by -0.3%. The Fund continues to significantly outperform its benchmark over the past twelve months with strong relative contribution from fund managers Home Consortium and Charter Hall Group, as well as selective residential exposures such as Lifestyle Communities, Ingenia Communities Group and Stockland. During November, Charter Hall Group was the strongest contributor to relative performance following its upgraded FY22 earnings guidance to +36% (previously +23%). Relative positioning in Rural Funds Group and Dexu also positively contributed to performance. Monthly detractors to performance included our underweight to Goodman Group, which delivered a solid quarterly update underpinned by momentum in its development business, whilst our overweight position in Vicinity Centres underperformed the market due to fears surrounding the new omicron COVID variant and the potential impact to shopping centre visitation.

Market review

The Australian REIT market (S&P/ASX 300 A-REIT Index) gained +4.0% in November, materially outperforming the broader S&P/ASX 300 which declined by -0.9%. For the rolling twelve months, the A-REIT index has returned +21.4%, outperforming the broader market which has returned +16.6%.

The pace of transactional activity continued into November, following a record level of capital demand in October. In aggregate, over \$4bn across 39 assets transacted during the month. Examples include 50% interests in Sydney's QVB, The Strand and The Galleries which traded for \$548m. Similarly, a 25% interest in Westfield Warringah traded for \$410m. Importantly, these transactions at or above book values provide further evidence that retail asset pricing has stabilised approximately -15% lower than pre-COVID levels.

A number of Groups provided quarterly updates during the month, with a continuation of similar trends observed across property sub-sectors. Goodman Group upgraded earnings guidance from +10% to +15% only three months into the fiscal year, citing an increasing development workbook to \$12.7bn with improving margins. Charter Hall Group similarly upgraded earnings guidance to +36% due to a bumper year of performance fees across \$14bn of the Group's funds. These two fund managers were the best performing names during November.

Meanwhile, Stockland's new CEO Tarun Gupta announced a strategic update which focussed on new sector allocations and income mix, with an emphasis on accelerating developments and scaling third party capital partnerships. Discretionary retail landlords Scentre Group and Vicinity Centres announced improving shopper visitation and cash collection trends, albeit earnings guidance for both Groups remains withdrawn given ongoing COVID-related uncertainty.

Market Outlook

Long term bond yields compressed 40bps during the month to 1.69% as investors sought defensive assets due to the spread of the omicron variant. Financial conditions globally remain expansionary and house prices have continued to rise rapidly in most capital cities. The RBA is committed to keeping interest rates low and while its base case is for a first rate rise in 2024, a pick-up in wages growth and inflation could bring the first increase forward to 2023.

The A-REIT distribution yield relationship relative to bonds remains attractive and the current spread is 220bps, vs the 190bps historic average, providing attractive valuation support. The sector is trading at a discount to Net Asset Value (NAV) with attractive growth per share 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 real estate securities which will benefit from the 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 exposures within the residential sector, which is benefiting from strong growth in house prices and low interest rates. Similarly, the Team maintains a preference towards pure-play fund managers, which continue to benefit from rising asset values and increased transactional activity.

We are witnessing lead indicators improve within the office and discretionary retail sub-sectors. Direct retail transactions are demonstrating a stabilisation in valuations, whilst office capital values continue to firm. Offshore investors continue to be attracted to real assets underpinned by defensive, resilient cash flows and as return expectations compress globally, the relative attractiveness of the Australian property market will ultimately support listed share prices.

Client Services

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

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