UBS CBRE Property Securities Fund

December 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.

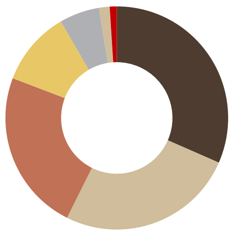
Investment return objective

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	$ 358.9 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 (%)



Industrial REITs	31.55
Retail REITs	25.82
Diversified REITs	23.42
Office REITs	10.82
Specialised REITs	5.81
Cash	1.56
Real Estate Development	1.02

Active security positions

Overweight	Underweight
Dexus	Stockland
Dexus Industria REIT	GPT Group
Charter Hall Group	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	5.39	9.49	29.27	17.48	12.63	8.57
Benchmark**	5.24	10.07	27.03	13.40	9.90	8.89
Added Value	**0.15**	**(0.58)**	**2.24**	**4.08**	**2.73**	**(0.32)**

*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 3.39% return during December, outperforming the S&P/ASX 300 AREIT Index by 0.15%. The Fund outperformed its benchmark over the 2021 calendar year by 224 bps, with the strongest relative contributions from fund managers Home Consortium and Charter Hall Group, as well as residential exposures such as Stockland, Lifestyle Communities and Ingenia Communities Group.

During December, the main contributor to relative performance was the Fund's underweight position in Stockland. Transactional evidence drove strong revaluation gains during the month and aided the Fund's overweight positioning in SCA Property Group, Dexus Industria REIT and Charter Hall Social Infrastructure REIT. Monthly detractors to performance included the Fund's underweight position in Waypoint REIT, which benefited from takeover speculation, whilst Vicinity Centres underperformed the market for the consecutive month 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 +5.2% in December, materially outperforming the broader S&P/ASX 300 which returned +2.7%. Over the 2021 calendar year, the A-REIT Index returned +27.0%, outperforming the broader market which returned +17.5%.

December brought a number of portfolio revaluations to market, which primarily drove sector returns. Reported valuation gains were widespread, with strength evident in specialist alternative, industrial and non-discretionary retail sub-sectors. Yield compression drove much of the valuation gains during the period, however there was also evidence of strong income growth emerging within core infill industrial portfolios.

During the month, Dexus introduced Blackstone into the Dexus Australian Logistics Fund, which acquired the 49% stake from GIC. The portfolio is primarily exposed to the strong performing Sydney and Melbourne markets and is weighted to traditional logistics facilities, which are leveraged to the growth of e-commerce. This material transaction provided very strong valuation evidence, which carried through in comparative listed industrial portfolios during the period. Also notable during December, Charter Hall Group continued its acquisitive momentum by announcing a 50% stake in Paradice Investment Management for $207m primarily using scrip to fund the transaction. The partnership introduces a further $18bn to the Charter Hall platform, growing to circa $80bn overall. Transaction rationale includes diversifying the Group's revenue streams across multi-asset classes and introducing cross-selling opportunities across varied investor bases.

Market Outlook

The 2021 calendar year witnessed significant outperformance of the Australian REIT Index versus broader market indices. During December, Australian coronavirus cases soared to record highs and prompted the reintroduction of work-from-home recommendations, mask-wearing mandates and density limits. Despite recent strong sector performance, valuation support is compelling and the A-REIT distribution yield relationship relative to bonds remains above long-term historic averages. Earnings growth is attractive as Australia emerges from COVID-related impacts and is 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.

As we look forward to the new calendar year, uncertainty and volatility will likely continue to influence global investment markets. Amid this backdrop, we anticipate the defensive nature of the Australian REIT sector's resilient cash flows will continue to be highly sought after. The breadth of private capital demand is underpinning portfolio valuations and we forecast strong earnings growth across our investment universe as the domestic economic recovery gathers pace.

Client Services

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