

UBS Property Securities Fund

December 2020



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.

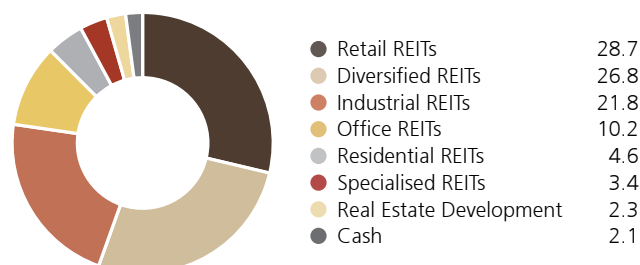
Active security positions

Overweight	Underweight
Ingenia Communities	Goodman
Centuria Capital	Scentre
Shopping Centres Australasia	Mirvac
Home Consortium	GPT
Vicinity Centres	Charter Hall Long WALE

Fund information

Inception date	1 February 1993
Fund size	\$250.6 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 (%)



Investment performance

Fund	1 month %	3 months %	1 year %	3 years % pa	5 years % pa	Since inception* % pa
Total return	1.08	13.60	(0.08)	8.89	9.61	7.89
Benchmark**	0.60	13.24	(3.96)	5.84	7.39	8.29
Added Value	0.48	0.36	3.88	3.05	2.22	(0.40)

*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

After fees and expenses, the portfolio increased by 1.08% over the month, outperforming its benchmark by 48bps.

In the past 12 months, the fund has delivered a 0.8% return and materially outperformed the -4.0% benchmark return. Positive transaction evidence and firming house prices supported the sector, offsetting the pickup in COVID cases in Sydney which weighed on the retail sector late in the month. The funds relative outperformance was driven by overweight exposure to the land lease retirement sector, with both Ingenia and Lifestyle Communities outperforming the market. Ingenia provided a sales update in December noting strong sales momentum and positive reservations trends across its holiday park business. Charter Hall Social Infrastructure was also a strong contributor to performance after announcing a sale of its remaining 20 NZ childcare properties and reiterated FY21 distribution guidance. Detractors to relative performance came from the funds underweight exposure to Charter Hall Group (CHC), Goodman Group (GMG) and Mirvac. CHC & GMG benefited from continued strong transaction evidence in the industrial market, whilst CHC completed another acquisition through its unlisted funds. Positive sentiment towards the housing market also supported Mirvac.

Market review

The Australian REIT market (S&P/ASX 300 A-REIT Index) was modestly up 0.6% in December, underperforming the broader equity market which rose 1.2% (S&P/ASX 200 Index). Expectations of lower long-term interest rates, demand for real assets and improving operating statistics continue to support the sector. Several strong real estate transactions illustrated the valuation gap between listed and direct real estate markets. GPT sold a 25% share in 1 Farrar place office tower in Sydney for \$586m, which was in line with June book value. Charter Hall Consortia acquired the David Jones flagship store in Sydney for \$510m on a 5% cap rate. This comes after several other high-profile office assets that have been sold over the last 3-6 months. Recent external valuations are reflecting this evidence. Dexus reported unchanged office valuations and a 4% increase in its industrial portfolio over the half. Centuria Industrial reporting a 6% uplift. Childcare landlord Arena reported a 4% uplift in valuations. Neighbourhood retail landlord Shopping Centre Australia reported a 3% uplift.

Given the positive valuation momentum, and continued demand from 3rd parties for real estate assets, the management sector was among the leading performers this month, led by Charter Hall Group, Centuria & Goodman. Childcare landlords Arena and Charter Hall Infrastructure were also stronger over the month helped by strong transaction evidence and a positive trading update from Arena.

A lift in COVID cases in late December in Sydney and Melbourne dampened sentiment late in the month. This resulted in underperformance for much of the retail sector with GPT, Scentre Group and Vicinity Group all underperforming. Investors feared a potential slowdown in mall sales after a strong recovery in November.

Abacus and Charter Hall Long WALE underperformed as investors digested the \$400m & \$250m respectively of new equity raised to build capacity for future unidentified acquisitions. A total of \$5.5bn was raised across the sector in 2020.

Outlook

The AREIT market has recovered strongly from its lows in March but remains down from its highs in February. Real estate securities should continue to fare relatively well in the current environment given comparatively stable cash-flows, attractive yields, and robust balance sheet positions. Whilst the economic environment is likely to remain patchy, particularly as some of the stimulus policies are unwound in 1H21, the listed market is already pricing in a slowdown in activity and there remains resilient regions, property sectors, and companies that we continue to believe are attractively priced.

The sector is currently trading at a discount to our assessment of Net Asset Value (in most cases conservatively incorporating asset value falls), offers an attractive dividend yield spread over government bonds, and trades on a significant PE discount to broader equities. Unlike the GFC, AREITs are in a much stronger balance sheet position with average gearing at ~26% vs 40% leading into the GFC. Liquidity is also significantly stronger with all major REITs having enough to meet upcoming debt expiries over the next 18 months.

The fund remains defensively positioned towards companies with low leverage, quality assets & management teams. The fund is strategically positioned to take advantage of attractive long dated structural themes like industrial, land lease retirement communities, essential services and childcare whilst holding selective residential exposure which is benefiting from strong government stimulus. The fund is also overweight fund managers which will continue to benefit from strong equity inflows as investors search for secure yield. We remain cautious on discretionary retail and selective in office exposure. 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. Should these discounts persist, we expect to see a pickup in corporate activity (M&A) in 2021. 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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