UBS CBRE Concentrated Global Property Model

April 2024

SMA description

The Model is an actively managed strategy investing in a direct portfolio of 25–45 global property equity securities across a range of geographic and economic sectors.

Investment strategy

Top-down sector and regional 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 objective

The Portfolio aims to outperform (after management costs) the FTSE EPRA/NAREIT Developed Rental Net Return Index (AUD) over rolling three year periods.

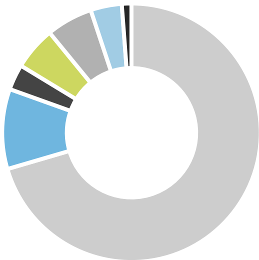
Model information

Inception date	2 November 2022
Management fee	0.80% pa
Minimum suggested investment	$ 100,000
Typical number of holdings	25 to 45
Currency management	Unhedged

Key portfolio statistics

Number of Holdings	35
Median market cap (AUD million)	$ 33,603.90
Debt to enterprise value	30.7%
Earnings Growth ('23/'22)	3.7%
Earnings Growth ('22/'21)	2.8%
Dividend yield	4.7%

Investment portfolio (%)



North America	70.4
Europe ex UK	10.0
United Kingdom	3.2
Asia Pacific ex Japan, Australia, NZ	5.4
Japan	5.8
Australia & NZ	3.9
Cash	1.2

Top 10 positions by stock (%)

Name	Market	Model
Realty Income Corporation	United States	7.2
Public Storage	United States	6.6
Simon Property Group, Inc.	United States	6.4
Equinix, Inc.	United States	6.2
Rexford Industrial Realty, Inc.	United States	4.7
Invitation Homes, Inc.	United States	4.4
Sun Communities, Inc.	United States	4.2
Scentre Group	Australia	3.9
Ventas, Inc.	United States	3.7
Unibail-Rodamco-Westfield SE Stapled Secs	Continental Europe	3.0
Top 10 Total		**50.3**

Top 5 overweight by stocks (%)

Name	Market	Model
Rexford Industrial Realty, Inc.	United States	4.1
Realty Income Corporation	United States	4.0
Public Storage	United States	3.7
Sun Communities, Inc.	United States	3.2
Simon Property Group, Inc.	United States	3.2

Top 5 underweight by stocks (%)

Name	Market	Model
Prologis, Inc.	United States	(4.9)
Welltower Inc.	United States	(3.8)
Digital Realty Trust, Inc.	United States	(3.0)
VICI Properties Inc	United States	(2.1)
Extra Space Storage Inc.	United States	(2.0)

Model performance

Model	1 month %	3 months %	Year to date %	1 year %	3 years % pa	5 years % pa	Since inception* % pa
Total return	(5.2)	(1.3)	(2.3)	4.7	-	-	6.9
Benchmark**	(5.7)	(2.5)	(3.7)	(0.1)	-	-	1.2
Added Value	**0.5**	**1.2**	**1.4**	**4.8**	**-**	**-**	**5.7**

* Inception date: 2 November 2022.
** FTSE EPRA/NAREIT Developed Rental Net Return Index (AUD). Performance figures are gross of ongoing fees and expenses. The performance figures quoted are historical, calculated using end of month 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.

Market review

Capital markets traded down to start the second quarter as cost pressures and tight labor markets have diminished the prospects for rate cuts. Global real estate stocks were down for the month as all regions posted negative performance. Europe and the Asia-Pacific region outperformed while the Americas region lagged. M&A activity continues, as Apartment Income REIT (U.S. residential) received a take-private bid from Blackstone and Shurgard (Continental Europe storage) acquired competitor Lok'nStore in a public-to-public deal.

Company earnings reports have been positive, with more than 80% of companies meeting or exceeding analyst estimates. While disappointing reports by Prologis in the U.S. industrial sector and Macerich in the U.S. mall sector weighed on respective performance, their results have been outweighed by strong 1Q results posted by companies across the U.S. residential, healthcare, net lease and shopping center sectors.

North America

Performance in the Americas region was down for the month and was generally negative by property type.

M&A activity continues, as U.S. multi-family landlord, Apartment Income REIT was the target of a privatization bid from Blackstone at a +25% premium to the pre-announcement price.

Residential, healthcare, shopping centers and net lease were the best-performing sectors.

The U.S. industrial and mall sectors lagged as Prologis (industrial) posted results that missed analyst expectations and Macerich's (malls) earnings were negatively impacted by the bankruptcy of retailer Express.

Asia-Pacific

The Asia-Pacific region saw mixed results as performance was led by Hong Kong, while Australia was the laggard.

Hong Kong posted a modestly positive return, although performance was mixed by property type.

Australian markets were pressured by increasing rates, and investors consolidated gains following recent outperformance.

Europe

The region was down modestly as sovereign yields drifted higher in April as market expectations for interest rate cuts receded.

This put pressure on share prices despite a generally more robust set of company results reported so far for Q1 2024.

Stock performance on the Continent was mixed, with retail names the notable outperformers while highly-levered companies in the Nordics region underperformed.

In the U.K., company performance was generally negative despite a marginal reduction in the inflation rate.

Performance review

The portfolio outperformed the benchmark for the month, as both stock selection and sector allocation added value. Positioning in Europe and the Asia-Pacific region added value while sub-par positioning in the Americas modestly detracted.

Americas

Positioning in the Americas region was a modest drag on performance, with positive sector allocation more than off set by negative stock selection. In the U.S., a material underweight to the underperforming industrial sector (avg. 5.2% underweight to underperformer Prologis) contributed to relative performance but was offset by the impact of an underweight to the outperforming healthcare sector and an overweight to the underperforming mall sector.

Asia-Pacific

Positioning in Asia-Pacific was a positive contributor to relative performance as favorable positioning in Australia, Japan and Hong Kong offset underperformance in Singapore. In Hong Kong, an overweight to outperforming Link REIT added value. In Japan, sector allocation was negative due to the underweight positioning in the J-REIT sector, this was more than offset by positive stock selection with overweights to outperforming LaSalle LOGIPORT (industrial) and Japan Hotel REIT.

Europe

Stock selection on the Continent drove relative outperformance in the region, led by outperforming retail names Unibail-Rodamco-Westfield and Klepierre. In the U.K., relative performance was positive for the month, driven by outperforming overweight positions in Big Yellow Group, Unite Group and an underweight to underperforming Segro.

Market outlook

We believe a new cycle for listed real estate began in the fourth quarter of 2023 and the asset class is poised to outperform broad equities, bonds and private real estate.

Historically attractive valuations

- With the end of the Fed hiking cycle signaled in Q4 2023, we believe the listed markets should benefit; they have the potential to outperform broad equities, private real estate, and fixed income.
- We estimate that REITs are trading at a double-digit discount to our assessment of private market values.
- REITs rarely trade at such a wide discount to the private markets.
- These indications have typically preceded periods of strong returns.

Fundamentals remain solid

- High occupancies, long-duration leases and staggered lease terms support earnings stability.
- Higher construction costs support a healthy supply vs. demand dynamic.
- Balance sheets and leverage levels for the public companies are in a position of strength relative to history.
- We project earnings growth of 2% and dividend growth of 4% in 2024; earnings growth can accelerate to over 5% in 2025.

Headline risk versus reality

- Historically, REITs have performed well during periods of extended higher-for-longer interest rates.
- As private market asset owners manage the upcoming wall of debt maturities, we expect REITs to benefit from external growth opportunities that are accretive to earnings.
- Despite tighter lending standards overall, REITs have demonstrated access to capital not available to private real estate investors.
- Accretive acquisitions have increased as REITs have access to capital as well as a cost of capital advantage compared with private market investors.
- The office sector accounts for less than 5%of the global REIT investment universe.

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