UBS CBRE Property Securities Fund

May 2024

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.

Target market

The Target Market Determination (TMD) for the Fund sets out the class of consumers for whom the product, including its key attributes, would likely be consistent with their likely objectives, financial situation and needs. To access to the TMD and other Fund documentation visit our website.

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.

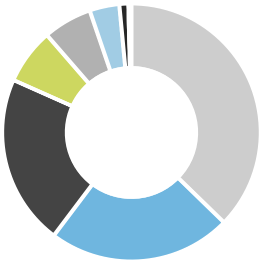
Investment objective

The Fund aims to outperform (after management costs) the S&P/ASX 300 Equity Real Estate Investment Trusts (REITS) Index over rolling three year periods.

Fund information

Inception date	1 February 1993
Fund size	$ 324.2m
Management fee	0.85% pa
Minimum initial investment	$ 50,000
Distributions	Quarterly
Buy/sell spread	+/- 0.25%
Currency management	Unhedged
APIR code	SBC0816AU

Investment portfolio (%)



Industrial REITs	37.3
Diversified REITs	23.0
Retail REITs	21.4
Office REITs	7.0
Other Specialized REITs	6.1
Multi-Family Residential REITs	3.7
Real Estate Development	1.1
Self-Storage REITs	0.0
Cash	0.4

Top 10 positions by stock

Name	Country	Portfolio Weight (%)
Goodman Group	Australia	37.29
Scentre Group	Australia	14.78
Stockland	Australia	10.89
Mirvac Group	Australia	6.38
Dexus	Australia	5.40
HMC Capital Limited	Australia	4.51
Charter Hall Group	Australia	3.94
Ingenia Communities Group	Australia	3.73
Arena REIT	Australia	2.67
Rural Funds Group	Australia	2.24
Top 10 Total		**91.83**

Top 5 overweight by stocks

Name	Country	Active Weight (%)
Scentre Group	Australia	4.05
Stockland	Australia	3.86
HMC Capital Limited	Australia	3.35
Ingenia Communities Group	Australia	2.55
Arena REIT	Australia	1.80

Top 5 underweight by stocks

Name	Country	Active Weight (%)
GPT Group	Australia	(3.50)
Vicinity Centres	Australia	(3.43)
National Storage REIT	Australia	(1.86)
Region Group	Australia	(1.62)
Charter Hall Long WALE REIT	Australia	(1.51)

Investment performance

	1 month %	3 months %	1 year %	2 years % pa	3 years % pa	5 years % pa	Since inception* % pa
Total return	2.05	2.90	28.30	9.84	7.88	7.19	7.98
Benchmark**	1.91	3.12	23.39	9.06	7.54	5.44	8.25
Added Value	**0.14**	**(0.22)**	**4.91**	**0.78**	**0.34**	**1.75**	**(0.27)**

* Inception date: 1 February 1993.
** S&P/ASX 300 A-REIT (Sector) Total Return 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.

Market review

The Australian REIT market (S&P/ASX 300 A-REIT index) returned 1.9% in May, outperforming the broader equity market which returned 0.9% (S&P/ASX 300 Index). During the month, numerous A-REITs provided March quarterly updates. Retail names reported positive sales growth, despite moderation in discretionary categories from weaker consumer confidence. Office names continued to experience challenging leasing conditions, particularly within non-core CBD fringe and secondary market locations. Logistics fundamentals remain strong but are softening slightly from the record high levels experienced in previous periods. Residential developers noted sales conditions remain challenging, with high interest rates continuing to subdue first-home buyer activity.

Cromwell Property Group (CMW) and Lendlease Group (LLC) separately divested global operations to simplify their businesses, fortify their balance sheets and reposition for growth. Cromwell entered a binding agreement to sell its European funds management platform and associated co-investments. This closely follows the divestment of its Polish Retail Fund a few weeks prior. Lendlease announced its commitment to exit all overseas construction and development businesses, whilst retaining offshore investment management activities.

Investment environment

Economic growth expectations are moderating in response to higher prices and rates.

GDP forecast +1.8% in 2024 and +2.3% in 2025. The labour market remains very tight with a 4.1% unemployment print in April.

Inflation has declined to 3.6% from the December 2022 peak of 8.4%. The market expects interest rates have peaked at 4.3%with the first cut fully-priced by June 2025.

Transactional markets have slowed as a new market equilibrium recalibrates.

Property fundamentals

Retail fundamentals are resilient with comparatively lower occupancy costs and high sales productivity.

Industrial demand continues to outstrip supply, driving strong rental growth.

Office market vacancy is increasing, and leasing conditions remain challenging.

Residential conditions have stabilised, and prices are recovering. Population growth and constrained land supply remain supportive.

Sector valuation

AREIT sector forecast FY24 earnings growth of +4% accelerating to +7% in FY25 with strong contributions from industrial, residential and land lease.

Balance sheets remain strong with 27%gearing (vs. >40% prior to GFC).

6.0% passive AREIT sector dividend yield provides an attractive inflation hedge.

Performance review

The Fund returned 2.1% during May compared to the S&P/ASX 300 AREIT index return of 1.9%.

The top contributor to performance was the Fund's overweight position in HMC Capital. The fund manager upgraded its FY24 earnings guidance +21% due to strong performance in its Capital Partners Fund, and subsequently announced the acquisition of a$1.5bn AUM private credit platform funded through a $130m oversubscribed equity raise. The acquisition increased HMC's assets under management to $12.5bn, with the Group inching closer to its medium term $20bn AUM target.

The Fund's underweight position in GPT Group also contributed to monthly performance. The commercial asset owner faces headwinds from upcoming office expiries, with the Group noting leasing its Darling Park, Sydney assets has proved challenging. While overall retail sales remained positive, the underlying cost of living pressures led to moderating spending in discretionary categories.

The largest detractor from monthly performance was the Fund's overweight position in Mirvac. The market is cautious on the timing of capital profit recognition from commercial developments, as well as earnings dilution from various asset sales to fund its capital expenditure program. The Fund remains attracted to Mirvac's residential development capability and forecasted recovery in housing turnover.

The Fund's overweight position in Scentre Group also detracted from monthly performance. The Group's quarterly update demonstrated resilient income and leasing metrics, despite a moderating sales growth environment. We believe Scentre Group can sustain superior portfolio performance, benefiting from inflation-linked rent reviews and a recovery in development income.

Market outlook

Interest rate headwinds are receding, and earnings growth is re-emerging. Real estate securities perform strongly in a stabilised or falling rate environment, with resilient cash flows and cost of capital advantages to pursue accretive growth opportunities.

A-REITs are well-positioned with conservative gearing and hedging levels. The Fund is maintaining a balanced exposure to value and growth-orientated names. Positioning is towards companies with quality assets, aligned management teams, and earnings growth underpinned by attractive supply/demand imbalances. The Fund is selectively positioned to several deeper value real estate securities which are expected to benefit from interest rate moderation. The Fund is strategically positioned to take advantage of subsectors experiencing attractive long-dated structural themes such as residential, industrial, agriculture, and childcare.

As we enter a new interest rate cycle, we anticipate the Australian REIT sector will benefit from a recovery in transaction volumes and accelerating earnings growth.

Preferred sectors:

- Residential - resilient demand and chronic undersupply, tight rentals and strong migration to support volume recovery
- Land Lease Communities - growing demand for affordable housing, demographic tailwinds and rents majority funded by aged pension
- Industrial and Logistics - pricing power evident, high occupier/investor demand, record low vacancy, attractive rental growth
- Childcare - localised market dynamics leveraged to population growth, early learning fees subsidised by government
- Rural - strong inflation hedge, competitive advantages extracting asset enhancement/conversion opportunities

Cautious sectors:

- Office - elevated vacancy and incentives, valuation pressure and bifurcated demand (flight to quality)
- Retail - sales growth is moderating, robust leasing metrics are supported by lower occupancy costs
- Self-storage - fundamentals are moderating due to cost-of-living pressures and lower residential turnover
- Fund Managers – Growth outlook slowing, equity raising uncompetitive - Wholesale pooled funds facing redemption pressure
- Long WALE - exposed to higher bond yields, low inflation-capture, diminishing investor interest

Client Services

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