UBS CBRE Property Securities Fund

March 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.

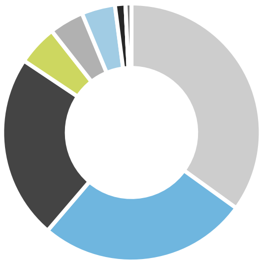
Investment objective

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	$ 348.9m
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	35.0
Diversified REITs	26.3
Retail REITs	23.1
Other Specialized REITs	5.0
Office REITs	4.3
Multi-Family Residential REITs	4.2
Real Estate Development	1.3
Self-Storage REITs	0.0
Cash	0.7

Top 10 positions by stock

Name	Country	Portfolio Weight (%)
Goodman Group	Australia	34.97
Scentre Group	Australia	14.53
Stockland	Australia	10.91
Mirvac Group	Australia	7.71
Ingenia Communities Group	Australia	4.19
Charter Hall Group	Australia	4.16
HMC Capital Limited	Australia	3.93
GPT Group	Australia	3.49
Dexus	Australia	2.73
Arena REIT	Australia	2.63
Top 10 Total		**89.25**

Top 5 overweight by stocks

Name	Country	Active Weight (%)
Stockland	Australia	3.77
Scentre Group	Australia	3.65
Ingenia Communities Group	Australia	2.98
HMC Capital Limited	Australia	2.84
Mirvac Group	Australia	1.96

Top 5 underweight by stocks

Name	Country	Active Weight (%)
Vicinity Centres	Australia	(3.55)
Dexus	Australia	(2.53)
GPT Group	Australia	(1.92)
National Storage REIT	Australia	(1.88)
Charter Hall Long WALE REIT	Australia	(1.57)

Investment performance

	1 month %	3 months %	1 year %	2 years % pa	3 years % pa	5 years % pa	Since inception* % pa
Total return	9.58	17.83	40.66	8.95	12.20	8.76	8.24
Benchmark**	9.56	16.16	35.36	7.87	11.50	6.71	8.51
Added Value	**0.02**	**1.67**	**5.30**	**1.08**	**0.70**	**2.05**	**(0.27)**

* 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.

Market review

Risk-on sentiment continued in March, whereby the Australian REIT market (S&P/ASX 300 A-REIT Index) increased by 9.6%, outperforming the broader S&P/ASX 300 by 6.3%. Moderating domestic bond yields contributed to market strength with cyclical exposures, such as fund managers, outperforming.

During March, there were several pieces of key news flow impacting the sector. Goodman Group extended its run of strong performance following its inclusion in the FTSE EPRA NAREIT Index. Healthscope, the key tenant of HMC Capital's unlisted healthcare fund and listed healthcare REIT, is rumoured to be seeking government funding to alleviate liquidity pressures. HMC believes its eleven Healthscope assets will not be impacted, having already restructured the leases to sustainable rent coverage ratios.

M&A activity continued with Charter Hall Group and CQR jointly acquiring a 14.8% strategic stake in HPI. This follows two separate scrip-for-scrip takeover bids in previous months, with Aspen and BWP Trust proposing to acquire Eureka and Newmark respectively. Corporate activity is a positive indicator, typically prompting trading discounts to narrow.

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 3.7% unemployment print in February.

Inflation has declined to 3.4% 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 October 2024.

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 +3% accelerating to +7% in FY25 with strong contributions from industrial, residential and land lease.

Balance sheets remain strong with 26%gearing (vs. >40% prior to GFC).

5.9% passive AREIT sector dividend yield provides an attractive inflation hedge.

Performance review

The Fund returned 9.7% during March, performing broadly in line with the S&P/ASX 300 AREIT Index.

The top monthly contributor to performance was the Fund's overweight position in Arena REIT. Arena continues to trade positively following the conclusion of the ACCC inquiry into childcare affordability, which identified labour costs, not property expenses, as the major driver of childcare affordability issues. Arena is well positioned with a strong balance sheet and defensive income profile, underpinned by inflation-linked triple net leases.

The Fund's underweight position in Charter Hall Long WALE REIT also contributed to monthly performance. The market continues to discount the REIT due to its elevated gearing position and associated earnings headwind from higher debt costs.

The largest detractor from monthly performance was the Fund's overweight position in HMC Capital. The Fund Manager consolidated recent outperformance after facilitating an $8.8bn reverse takeover within its Capital Partners Fund and announcing various new investment strategies underpinned by global mega trends. HMC underperformed following liquidity concerns in Healthscope, the key tenant within both its healthcare REIT and unlisted healthcare fund. Healthcare operators rely on fixed government funding with variable cost bases, resulting in pressure on margins. HMC noted its 11 assets leased to Healthscope are in a 'strong financial and legal position'.

The Fund's overweight position in Rural Funds Group also detracted from monthly performance. The market continues to discount the agricultural asset owner for its constrained balance sheet. Rural Funds Group has guided to non-core asset divestments to unlock the next stage of its macadamia development strategy. The Fund continues to be attracted to its uncorrelated cash flows, triple net lease structures, and strong and appreciating asset backing.

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 market stabilization persists, we anticipate the Australian REIT sector will benefit from increased transaction volumes, capital inflows, and accelerating earnings growth.

Preferred sectors:

Industrial and Logistics - pricing power evident, high occupier and investor demand, record low vacancy, attractive rental growth

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

Childcare - localised market dynamics leveraged to population growth, early learning fees subsidised by government

Rural - strong inflation hedge, uncorrelated cash flows, competitive advantages extracting asset enhancement/conversion opportunities

Cautious sectors:

Office - elevated vacancy and incentives, valuation pressure and bifurcated demand (flight to quality)

Retail - moderating economic and consumer outlook, higher debt costs (unhedged exposure) weighing on earnings

Self-storage - fundamentals are moderating due to cost-of-living pressures and lower residential turnover

Fund Managers – leveraged to slowing capital flows and declining asset valuations, equity raising uncompetitive

Long WALE - exposed to higher bond yields, low inflation-capture, diminishing investor interest

Client Services **www.ubs.com/am-australia**

Telephone: (03) 9046 4041 Freecall: 1800 572 018 Email: ubs@unitregistry.com.au