Portfolio report

UBS CBRE Property Securities Fund
Australia Equity
Client report from 01.09.2024 to 30.09.2024

Performance Comments

The Fund returned +12.33% during the September quarter, underperforming the S&P/ASX 300 AREIT Index by -1.97%.

The largest contributor to quarterly performance was the Fund's overweight position in Stockland. The Group reported improving residential sales rates and continues to reweight its capital allocation towards development activities. After a significant period of deliberation, the ACCC cleared Stockland's acquisition of Lendlease's Communities business in September, which paves the way for an upgrade to earnings guidance.

The Fund's overweight position in Scentre Group also contributed to quarterly performance. Scentre reported strong operational results, with robust sales growth and higher portfolio occupancy and visitation levels. In September, the Group successfully refinanced $900m of subordinated notes, generating a material margin saving versus the prior facility. We expect ongoing refinancings will continue to support future earnings growth outcomes.

The largest detractor from quarterly performance was the Fund's underweight position in Charter Hall Group, which provided earnings guidance that exceeded market expectations, based on improving transaction activity levels and material cost-out. Charter Hall believes significant cap rate expansion is now reflected in current asset valuations and expects stabilisation going forward.

The Fund's underweight position in Vicinity Centres also detracted from quarterly performance. The Group reported strong leasing outcomes and continues to improve its portfolio quality via the acquisition of a 50% stake in Lakeside Joondalup for $420m, inclusive of management rights. Vicinity's earnings growth outlook is currently constrained by temporary development impacts, however medium-term fundamentals remain supportive, namely population growth and limited new supply.

% Return (Net)	Fund[1]	Benchmark*	Difference
3 months	12.33	14.30	(1.97)
1 years	46.48	45.93	0.55
3 years	8.35	8.81	(0.46)
5 years	8.52	7.22	1.30
Calendar Year to Date	25.06	25.26	(0.20)
Since inception (02/93)	8.31	8.63	(0.32)

[1]Performance figures are net of ongoing fees and expenses.

* S&P/ASX 300 Property Accumulation Index

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.

Source: UBS Asset Management. These figures refer to the past. Past performance is not a reliable indicator of future results.

Stock Contributors & Detractors (%)

Company name	Return	Contribution	Over / underweight
Stockland	25.66	0.58	OW
Unibail-Rodamco-Westfie	8.29	0.46	UW
Scentre Group Limited	19.97	0.37	OW
Mirvac Group	14.97	0.26	UW
Hmc Capital Ltd	14.57	0.17	OW
Total of top 5 Contributors		**1.84**	
Goodman Group	6.45	(0.23)	OW
Gpt Group	24.50	(0.35)	UW
Lifestyle Communities L	(27.60)	(0.42)	OW
Charter Hall Group	42.84	(0.53)	OW
Vicinity Centres	22.74	(0.68)	OW
Total of top 5 detractors		**(2.21)**	

Note: Position at quarter-end, which may be different to the position during the quarter.

Portfolio Positioning

Active Positions by Stock (%)

Top 5 Overweights		**Top 5 Underweights**	
Goodman	39.20	GPT	(20.88)
Scentre	14.95	Mirvac	(18.56)
Vicinity	5.41	Stockland	(17.71)
Ingenia Communities	4.34	Charter Hall	(13.28)
Arena REIT	3.14	Charter Hall Long Wale REIT	(6.16)

Note: Position at quarter-end, which may be different to the position during the quarter.

Market Review

The Australian REIT market (S&P/ASX 300 A-REIT Index) increased by +14.3% in the September quarter, outperforming the broader equity market which returned +7.8%.

Financial year results dominated the September quarter, which reported relative earnings resilience versus the broader market. Asset valuations appear to have rebased for most sub-sectors and transaction activity levels are expected to recover from trough levels.

At a sub-sector level, retail names reported robust income growth, driven by leasing escalators, positive re-leasing spreads and a recovery in ancillary revenue. The office sector reported challenging leasing conditions, whilst office valuations have declined by approximately -21% since the June 2022 peak. Industrial fundamentals are softening from elevated levels, however material under-renting suggests enduring rental reversion potential across the sector. Residential names reported mixed outcomes, with the pace of price growth moderating due to affordability challenges, particularly within the first home buyer segment. Sales volumes continue to recover, albeit remain below the long-term average, with Victoria lagging due to excess stock and higher state-level taxes which have impacted investor sentiment.

Outlook & Strategy

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. 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. 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.

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