UBS CBRE Concentrated Global Property Model

March 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.

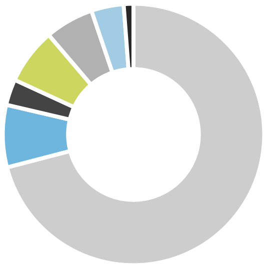
Model information

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)	$ 37,801.93
Debt to enterprise value	30.1%
Earnings Growth ('23/'22)	4.5%
Earnings Growth ('22/'21)	2.9%
Dividend yield	4.5%

Investment portfolio (%)



North America	70.8
Europe ex UK	7.7
United Kingdom	3.2
Asia Pacific ex Japan, Australia, NZ	6.9
Japan	6.0
Australia & NZ	4.0
Cash	1.2

Top 10 positions by stock (%)

Name	Market	Model
Equinix, Inc.	United States	7.1
Realty Income Corporation	United States	7.0
Public Storage	United States	6.8
Simon Property Group, Inc.	United States	6.5
Rexford Industrial Realty, Inc.	United States	4.5
Invitation Homes, Inc.	United States	4.3
Scentre Group	Australia	4.0
Ventas, Inc.	United States	3.6
Apartment Income REIT Corp	United States	3.1
Sun Communities, Inc.	United States	3.1
Top 10 Total		**50.0**

Top 5 overweight by stocks (%)

Name	Market	Model
Realty Income Corporation	United States	4.0
Rexford Industrial Realty, Inc.	United States	3.8
Public Storage	United States	3.7
Scentre Group	Australia	3.2
Simon Property Group, Inc.	United States	3.1

Top 5 underweight by stocks (%)

Name	Market	Model
Prologis, Inc.	United States	(5.5)
Welltower Inc.	United States	(3.5)
Digital Realty Trust, Inc.	United States	(2.9)
VICI Properties Inc	United States	(2.1)
Extra Space Storage Inc.	United States	(2.1)

Model performance

Model	1 month %	3 months %	Year to date %	1 year %	3 years % pa	5 years % pa	Since inception* % pa
Total return	2.7	3.0	3.0	13.6	-	-	11.4
Benchmark**	2.5	2.1	2.1	9.2	-	-	5.5
Added Value	**0.2**	**0.9**	**0.9**	**4.4**	**-**	**-**	**5.9**

* 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

Global real estate stocks were flat for the quarter in local currency, following strong returns to end 2023. The REIT sector also lagged the broader equity market during Q1 as the MSCI World Index was up +10.2% in local terms. The divergence in quarterly returns is one of the largest in the past 20 years. Historically, REITs have materially outperformed the broader market in the quarter following these occurrences.

REITs fundamentals remain solid and valuations are attractive. This earnings season, more than 80% of REITs either met or beat analyst estimates. For 2024, many companies issued conservative guidance. Looking into 2025, we expect an acceleration in REIT earnings, with mid-single-digit FFO growth above the historic average. Alongside an attractive dividend yield and discounted valuations to both private real estate and public equity markets, we believe the total return prospects for REITs are compelling.

North America

Performance in the Americas region was down modestly, following last quarter's strong rally. Performance was mixed by property type.

Malls, hotels and data centers were the best-performing sectors.

The mall and hotel sectors delivered strong returns, aided by continued economic growth and a resilient consumer.

The U.S. data center sector continues to benefit from the nascent AI industry, with increasing demand & low vacancies driving pricing power.

Asia-Pacific

The Asia-Pacific region posted the best performance, as Japan and Australia delivered positive returns, offsetting underperformance in Hong Kong and Singapore.

The Japanese market rallied sharply following the BOJ's announcement to simplify monetary policy by ending its negative interest rate, YCC and quantitative easing policies.

Australian markets rallied following the release of first half FY24 results, several companies experienced strong market rent growth. Reports also showed a stabilization in office occupancy levels, a resilient retail market, and residential developers anticipating improvements in sales volume.

Europe

The European region lagged following exceptionally strong Q4 2023 performance, due in large part to stubbornly high rates, economic deceleration in Germany, and a few companies participating in dilutive equity offerings.

Stock performance on the Continent was mixed, with retail generally outperforming while German residential and highly-levered companies in the Nordics region underperformed.

In the U.K., company performance was generally negative for the quarter as interest rates remained high on stronger than expected economic data.

Performance review

The portfolio outperformed the benchmark for the quarter, driven by overall positive stock and sector allocation. The main contributors to positive stock selection were Europe and the Asia-Pacific region. The Americas region sector allocation decisions were a positive contributor to relative sector performance and were only partially offset by the impact of positioning in the Asia-Pacific region which detracted from sector allocation.

Americas

The Americas region was the primary contributor to relative performance as positioning in the U.S. and Canada each benefited the portfolio. In the Americas, stock selection in the hotel, storage sectors and Canada were the top contributors, but were more than offset by the drag from holdings in the healthcare and industrial sectors. An overweight to the outperforming mall sector accounted for most of the contribution from sector allocation. In Canada, an overweight to outperforming Boardwalk REIT helped relative performance.

Asia-Pacific

Asia-Pacific region positioning added relative performance for the quarter where stock selection in Australia was the top contributor, helped by overweights to outperforming Scentre Group (malls). Meanwhile, sector allocation was negatively impacted by positioning in Hong Kong, where an overweight to underperforming Link REIT detracted from relative performance.

Europe

Stock selection on the Continent drove relative outperformance in the region, led by outperforming retail names Unibail-Rodamco-Westfield and Klepierre. Meanwhile, U.K. stock selection was negatively impacted by overweight positioning to underperforming Big Yellow Group (storage) and Unite Group (student accommodation).

Market outlook

Following the end of the Fed tightening cycles, REITs have historically outperformed broad equities, bonds and U.S. 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

- 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
- M&A transactions 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

Key investment themes

We own a well-balanced portfolio of securities that have been screened for their growth prospects in combination with the quality of their business models, assets, balance sheets and management teams. We are positive on property types, regions and stocks that offer these qualities at attractive relative valuations.

United States overweights

- Retail: Malls
- Healthcare: Favor Private-Pay Senior Living & Life Science Storage
- Hotels: Bias toward business travel
- Towers

Non-U.S. overweights

- Australia: Industrial, Data Centers, Retail and Farmland Hong Kong: Retail and Diversified
- J-REITs: Mid-cap Diversified, Hotels and Industrial
- J-REOCs: committed to improving corporate governance S-REITs: Industrial and Retail
- UK: Industrial, Retail, Student Housing and Diversified Continental Europe: Retail, Storage and Diversified

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