UBS

UBS Property Securities Fund

December 2017

Fund description

The Fund is a portfolio of mainly Australian Real Estate Investment Trusts that we believe are being undervalued by the market, based on our assessment of the company's furture cashflows.

Investment objective

The Fund aims to outperform (after management costs) the S&P/ASX 300 Property Accumulation Index over rolling five year periods.

Active security positions

Overweight	Underweight
Vicinity	Dexus
Stockland	Westfield
Viva Energy REIT	GPT
Charter Hall	Shopping Centres
Arena REIT	Iron Mountain

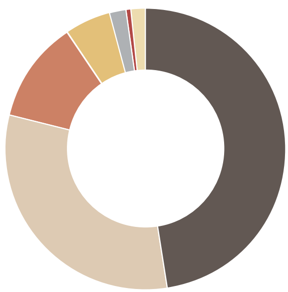
As at 31 December 2017

Fund information

Inception date	1 February 1993
Fund size	$186.7 m
Management fee	0.85% pa
Minimum initial investment	$20,000 (via mFund $5,000)
Typical number of holdings	15 to 25
Distributions	Quarterly
Buy/sell spread	+/- 0.25%
APIR code	SBC0816AU
mFund code	UAM11

As at 31 December 2017

Investment portfolio



Retail REITs	47.7%
Diversified REITs	31.4%
Industrial REITs	11.7%
Specialised/Office REITs	5.2%
Health Care REITs	1.9%
Real Estate Development	0.5%
Cash	1.6%

As at 31 December 2017

Investment performance

As at 31 December 2017

Fund	1 month %	3 months %	1 year %	3 years % pa	5 years % pa	Since inception* % pa
Total return	(0.03)	7.92	8.61	11.20	14.03	7.89
– Distribution	-	0.57	5.23	4.02	4.16	-
– Growth	-	7.36	3.38	7.18	9.87	-
Benchmark**	0.12	7.79	6.44	11.27	13.38	8.38
Added Value	**(0.15)**	**0.13**	**2.17**	**(0.07)**	**0.65**	**(0.49)**

*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. Performance has been prepared in accordance with 2016 GIPS standards. 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.

Portfolio review

After fees and expenses, the portfolio decreased by 0.03% over the month, underperforming its benchmark by 15bps.

In the past 12 months the fund has delivered a +9.5% return versus the benchmarks +6.4% return. During December an underweight to Dexus (DXS) contributed positively while an underweight to the Westfield Corporation (WFD) detracted relative value. For the year, an overweight to the Charter Hall Group (CHC) contributed positively while an overweight to Vicinity Centre (VCX) detracted relative value.

Market review

The Australian REIT market (S&P/ASX 300 A-REIT Accumulation Index) delivered a +0.1% return in December, underperforming the broader equities return of +1.8% (S&P/ASX 200 Accumulation Index). The best performer for the month was Westfield Corporation (WFD) at +13.2%, while the key underperformers were Iron Mountain (INM) at -8.7% and National Storage (NSR) at -4.1%. The focus in December was on Westfield following the takeover approach by France's Unibail-Rodamco (UL. NA), to create "the world's premier developer and operator of flagship shopping destinations". Over the past twelve months AREITs have delivered a +6.4% return vs +11.8% for the broader equities market. In terms of AREIT sector returns, fund managers and industrial landlords tended to outperform the benchmark, while retail landlords underperformed despite potential M&A. The industrial sector delivered +22.4% during 2017, diversified stocks increased +10.7%, office returned +6.6% and retail stocks decreased -0.4%.

Outlook

The sector is presently paying a 4.9% distribution yield with dividend growth of 4.0% expected in CY18, thus providing a forecast total return of around 9%. This compares to a cash rate of 1.5% and similarly modest offerings from cash management accounts. The sector benefits from low gearing, secure distributions and strong demand for institutional grade real estate from sovereign and pension funds. A continuation of low interest rates and corporate activity / M&A will support the sector, while any softening in bond yields would negatively impact pricing.

Client Services

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