Quarterly Investment Update

Antares Listed Property Fund – September 2020

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Highlights for the quarter

Performance: The Fund returned 5.9% (net of fees) for the September quarter which was below its benchmark.

Contributors to performance: Positive contributors – Unibail-Rodamco-Westfield (underweight), Peet, Vicinity (underweight); Negative contributors – GPT (overweight), Charter Hall Group (underweight); Goodman Group (underweight).

Stock activity: Buys/additions – Goodman Group; Sells/reductions – Abacus, Sydney Airport, Charter Hall Long Wale REIT

Fund snapshot

Inception date	28 February 1994
Benchmark	S&P/ASX 200 A-REIT Total Return Index
Investment objective	To outperform the benchmark (after fees) over a rolling 5-year period.

Investment returns as at 30 September 2020[1]

Period	3 months	1 year	3 years pa	5 years pa	10 years pa	Since inception pa
Net return[2] %	5.9	-18.6	0.3	3.2	8.2	7.2
Gross return[3] %	6.1	-18.0	1.0	3.9	9.0	7.9
Benchmark return %	7.0	-16.6	3.7	5.6	9.5	7.1
Net excess return %	**-1.1**	**-2.0**	**-3.4**	**-2.4**	**-1.3**	**0.1**
Gross excess return %	-0.9	-1.4	-2.7	-1.7	-0.5	0.8

[1] Past performance is not a reliable indicator of future performance. Returns are not guaranteed and actual returns may vary from any target returns described in this document.
[2] Investment returns are based on exit prices, and are net of management fees and assume reinvestment of all distributions.

Sector and strategy performance

The Australian REIT sector (as represented by the S&P/ASX 300 A–REIT Total Return Index) delivered positive returns of 7.4% for the quarter to September 2020. This was significantly ahead of the broader equities market, which declined by 0.4% (as measured by the S&P/ASX 200 Total Return Index).

Chart 1: Australian REITs, 12 months to 30 September 2020

Source: Bloomberg, September 2020

As Chart 1 highlights, 12 month A-REIT returns remain impacted by the March quarter slump - the Antares Listed Property Fund delivered a total return net of fees for the year of -18.6%, which was below the benchmark decline of 16.6%.

Portfolio Positioning

To recap calendar year 2020 so far, virtually overnight, the coronavirus pandemic changed:

- How we shop; and
- How we work.
- As well as severely curtailing, if not decimating the travel, hospitality, entertainment and leisure sectors

The move to online shopping had been occurring for many years, but in response to restrictions of movement, lockdowns and safety concerns associated with the coronavirus pandemic, this accelerated exponentially and appears entrenched. Without the opportunity to spend on travel, leisure and hospitality, consumption was directed elsewhere.

Beneficiaries have included retailers with strong online offers and systems (eg Kogan, JB HiFi), payment platforms that are favoured by online shoppers (eg Afterpay) and companies associated with the logistics of distributing online purchases (eg Goodman Group, Australia Post and courier companies).

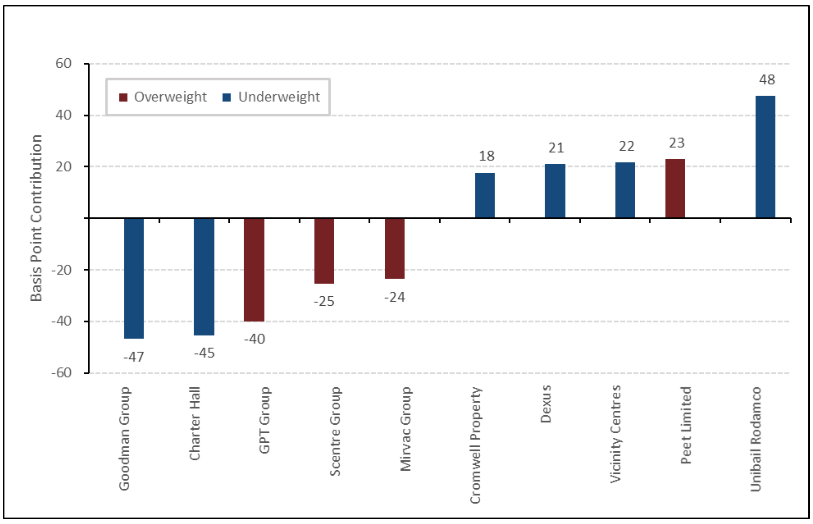
Those adversely impacted include retail landlords (Scentre Group, Vicinity) and especially retail businesses that have been slow to adapt to online.

Questions surround whether office workers will ever return to the office on a daily basis. There are safety and cost concerns about returning to workplaces until there is a vaccine and many question whether offices stack up when compared to the relative success and lower corporate costs of working from home for professional workers.

With the above changes in mind, we made a couple of changes to the portfolio. We continued to reduce our exposure to the office sector and increased our exposure to good quality industrial assets that would withstand the test of time such as our decision to take an overweight position in Goodman Group (GMG) given its ability to grow at above the market rate and expand its business globally. While the overweight is modest, it reflects GMG's relatively expensive valuation.

Our overweight position in GPT and underweight positions in Charter Hall (CHC) and GMG were the biggest detractors from performance during the quarter, while our underweight holdings in Unibail Rodamco Westfield (URW), Dexus (DXS) and Vicinity (VCX) contributed positively. The Industrial sector continues to remain favoured by property investors as the sentiment towards the office sector becomes increasingly negative as leasing conditions worsen.

Chart 2: Fund attribution – September quarter



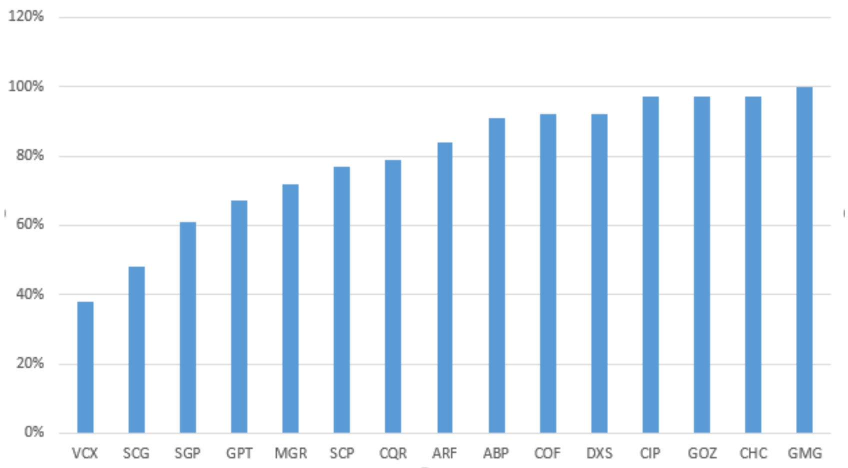
Source: Antares, September 2020

A-REIT Reporting Season takeaways

- FY21 guidance: The majority of A-REITS didn't provide guidance due to the unknown impacts of the coronavirus pandemic related closures. Of the large caps, only CHC and GMG were sufficiently confident to provide guidance and hence performed strongly in the September quarter.

- Impact on rent Collection: As shown in Chart 3, retail landlords (VCX. SCG) were worst impacted through the final quarter of the last financial year, office landlords (MGR and DXS) were ok and industrial (GMG) sailed through. Childcare, service stations and storage sectors were relatively resilient as well.

Chart 3: Proportion of rent collected 4QFY20



Source: Company reports, Antares Equities; September 2020

Based on the commentary from A-REITs and our research during the reporting season, we believe

- Retail as a sector is likely to suffer pain as the balance of power has shifted towards retailers. Only strong retail assets with a clear point of difference will perform well over the next 2-3 years.
- Office occupancy levels will get worse. Cyclical pressures are likely to increase on vacancy, rental and incentives as economic pressure will combine with workplaces re-evaluating their office requirements (due to Covid).
- The Industrial leasing environment will slow as e-commerce is only a portion of demand and the economy is likely to slow down. However, investor appetite will remain strong which should assist in asset value appreciation.
- The residential market for detached housing lots will get stronger as the desire to work from home will lead to demand for bigger houses. As a result, demand for the apartment market will slow and might take a few years to pick up.

Another noticeable factor was the overall gearing level for REITs – we believe it is at a manageable level with sector gearing on average at 25%. However, URW and SCG stand out. URW has announced its intention to raise equity, while SCG has kicked the can down the road by issuing a hybrid instrument that allows it to carry additional debt for the moment.

We believe the February reporting season will be very important for retail landlords as Christmas trading will give us a better indicator of winners/losers in this new world.

Stock activity and commentary

During the quarter we participated in two capital raisings and changed our portfolio positioning on one stock:

Sydney Airport (SYD): Sydney Airport had been severely impacted by the on-going pandemic and after refusing to raise additional equity immediately after the pandemic was declared, SYD decided to raise $2.0b of equity through a 1 for 5.15 entitlement offer. This reflected management's views on increasing uncertainty around the aviation passenger traffic recovery pathway, especially domestic, as Victoria went in to Stage 4 restrictions. We believe it was a sensible decision. One pleasing aspect of the capital raising was that it was executed in a way that didn't dilute the ownership of small shareholders - a rarity through this period - reflecting strong management/board integrity. We participated in the capital raising at $4.56 per share, approximately 15% below SYD's last close. The capital raising was well received and SYD's share price increased to $5.70-$6 in the following weeks. At this point we exited our position as we saw better opportunities elsewhere.

Charter Hall Long WALE (CLW): CLW was a new stock for the fund but one we exited quickly as well. CLW announced that it has formed a partnership to acquire 49% stake in a portfolio of 70 BP assets in NZ with 20 year weighted average lease expiry (WALE) and 6.25% initial yield. This increased CLW's overall WALE marginally from 14 years to 14.2 years. We believe it was a good deal and accordingly participated in the transaction. However, given we only received a small allocation in the capital raising, we decided to exit the holding at a small profit as stock traded up post the capital raising.

Goodman Group (GMG): The Industrial AREIT sector remained flavour of the year including in the August reporting season. GMG has surprised us (and the market) on the upside as it continues to grow at a solid pace with tailwinds from e-commerce driving strong underlying performances for the business. GMG is not a value stock and is potentially expensive at these levels. However, given the runway for growth in this global business is long and management has shown strong ability to execute through the market cycle, we moved to a marginal overweight position in the portfolio post results. We expect that in the low interest rate world, GMG's ability to deliver above sector growth (8-10%) will be highly regarded and continue to drive outperformance. Giving additional comfort is the long alignment of interest between shareholders and management incentives which are designed for medium to long term success of the business.

Abacus Group (ABP): As mentioned in the last quarterly, the fund has been reducing its position in ABP since it showed interest in acquiring National Storage REIT (NSR). We are not supportive of this capital allocation decision as in our view it will lead to dilution in portfolio quality. Additionally, capital allocation towards office sector in the last 12 months is likely to prove to be ill-timed as office leasing markets continue to toughen across most major markets. We continue to decrease our position in ABP through the September quarter.

Outlook and strategy

While the initial reaction to the A-REITs due to Covid-19 was materially negative, they have bounced back strongly in the following six months. Some A-REITs required capital raisings to shore up their balance sheets and protect themselves against any future adversity in cash flows and asset values. As a result, the A-REITs generally remain in sound shape given the strong balance sheet position – relatively lower leverage than GFC diversity of lenders and tenure. In addition, corporate governance practices are healthy and capital management strategies seemed sensible as has been the case during the more recent profit reporting seasons.

Going forward, the focus from the market will be on valuations for property assets and henceforth on Net Tangible Assets (NTA) per security for the A-REITs. Retail assets owners took a lot of pain in the reporting season as asset values declined 10-20% and are now likely to stabilise as local economies begin to re-open. We think office asset values will decline moderately in the short term but may suffer more in the medium term as rental growth declines due to the shift towards work-from-home. Industrial assets are likely to continue to see appreciation in capital values as demand for leasing and acquiring industrial assets remains strong from both tenants and capital markets.

Our security selection and portfolio construction process continue to be driven by our proprietary, bottom up research process. For the A-REITs this analysis focuses on the fundamental factors of portfolio quality, management, balance sheet strength and valuations. The biggest unknown factor or risk for the fund is the duration of the health crisis and the resulting severity for the economy over the next 12-18 months. However, we believe our focus and strategy to own high quality assets will serve us well through the crisis. Our preference remains for well managed REITs with quality assets – GPT, MGR, SCG and as discussed above we increased our holdings in GMG and now have a modest overweight position.

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Get in contact

antarescapital.com.au

Toll free: 1800 671 849
Email: investorservices@antaresequities.com.au
Mail: GPO Box 2007 Melbourne VIC 3001