# Quarterly Investment Update

Antares Listed Property Fund – December 2020

For adviser use only

## Highlights for the quarter

**Performance:** The Fund returned 13.8% (net of fees) for the December quarter which was 0.5% ahead of its benchmark.

**Contributors to performance:** Positive contributors – Scentre Group, Mirvac, Charter Hall Long WALE REIT (underweight); Negative contributors – Unibail-Rodamco-Westfield (not owned), Waypoint, Transurban.

**Stock activity:** Buys/additions – Charter Hall Long WALE REIT; Sells/reductions –

## 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 31 December 2020[1]

| Period | 3 months | 1 year | 3 years pa | 5 years pa | 10 years pa | Since inception pa |
|---|---|---|---|---|---|---|
| Net return[2] % | 13.8 | -6.2 | 2.1 | 4.8 | 9.7 | 7.6 |
| Gross return[3] % | 14.0 | -5.5 | 2.8 | 5.5 | 10.5 | 8.4 |
| Benchmark return % | 13.3 | -4.6 | 5.4 | 7.0 | 11.1 | 7.5 |
| **Net excess return %** | **0.5** | **-1.6** | **-3.3** | **-2.2** | **-1.4** | **0.1** |
| Gross excess return % | 0.7 | -0.9 | -2.6 | -1.5 | -0.6 | 0.9 |

[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

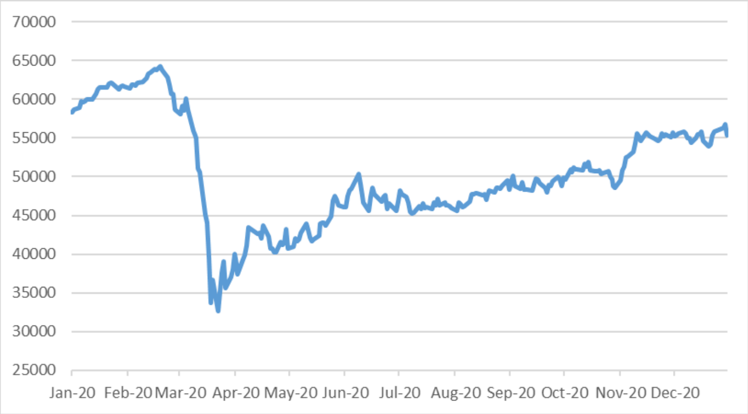
While the initial reaction to the A-REITs due to Covid-19 was materially negative, they have bounced back strongly since, returning 13.3% for the December quarter. This was marginally below the S&P/ASX 200 Total Return index which delivered 13.7% for the December quarter.

October and December were relatively flat, but the AREITs surged in November as lockdowns eased and there was positive news about a coronavirus vaccine.

The return of customers to shopping centres boosted retail AREITs by 22% over the quarter with Diversified AREITs also performing strongly (+15.5%). The Office sector gained ground (+8.6%) as workers began returning to the office, having been sold down as office workers were forced to work from home. The residential AREITs also rose (+4.5%) over the quarter as governments provided more stimulus and incentives. Industrial AREITs had surged as beneficiaries of the acceleration in adoption of on-line shopping and the closure of retail malls, but paused during the quarter (+2%) as the economy re-opened.

However, despite the strength of the December quarter the AREIT sector finished negative for the calendar year 2020, returning -4.6%.

**Chart 1: Australian REITs, 12 months to 31 December 2020**

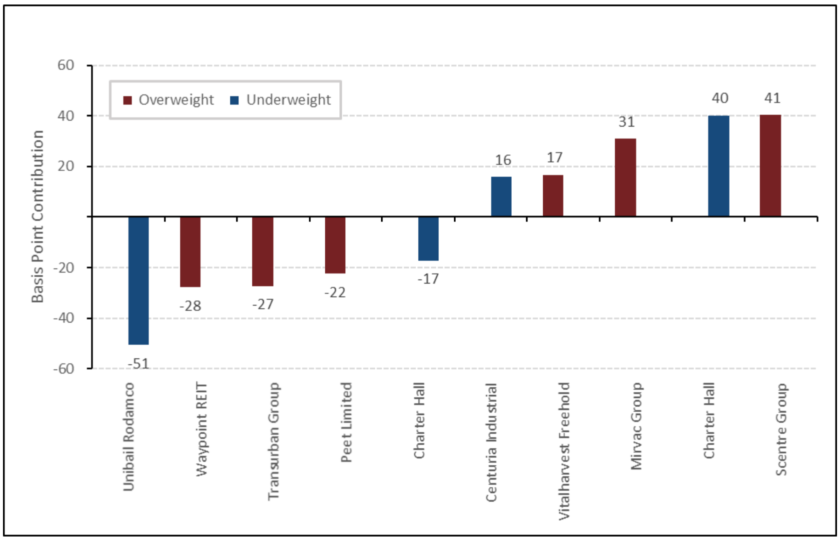



Source: Bloomberg, December 2020

Against this backdrop, the Antares Listed Property Fund delivered a total return for the December quarter of 13.8% outperforming the benchmark by 0.5% over the last 3 months.

## Portfolio Positioning

**Chart 2: Fund attribution – December quarter**




Source: Antares, December 2020

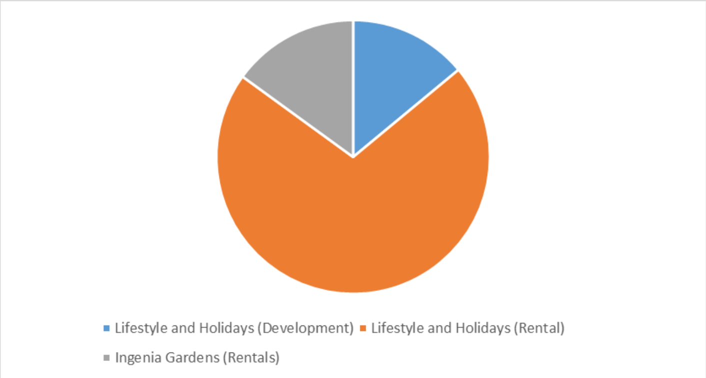
## Stock activity and commentary

During the quarter we took the opportunity to make a few changes in the portfolio holdings. Some of the key changes include:

**Bought / added**

- **Ingenia Communities Group** (INA) is an active owner, manager and developer of a diversified portfolio of retirement and holiday communities across Australia. Its real estate assets at 30 June 2020 were valued at $1.1b approximately, comprising primarily of 37 lifestyle and holiday communities (Ingenia Lifestyle and Holidays) and 26 rental communities **(Ingenia Gardens). The main growth engine for INA is to build, own and operate land lease communities which provide** affordable housing options to Australians over 50. INA's land lease model offers working, semi-retired, and retired people over 50 to downsize their family home to free up equity in retirement whilst enjoying resort style living. Business operating environment for INA remains supportive as it is leveraged to an ageing population with limited or no retirement savings. As a result, given the industry tailwinds, we expect INA and the land lease asset class to be continue to demonstrate solid growth over the medium to long term.

**Chart 3: INA Investment Property Portfolio Split**




Source: FY20 Company Reports, Antares Equities; December 2020

- **Charter Hall Long WALE REIT** (CLW): We added CLW to the portfolio in the December quarter after exiting in the previous quarter. We participated in a $250m fully underwritten institutional placement undertaken by CLW to fund the acquisition of two properties - being 76-78 Pitt St, Sydney, for $281.5m via a sale and leaseback from Telstra and a Bunnings property to be developed at Caboolture, QLD, for $28.1m. Placement pricing of $4.65/share was at a 3.3% discount to CLW's last close, below NTA and the new securities were entitled to the 1H21 DPS of 7.3cps, which we found to be an attractive entry point. Additionally, CLW acquired a 50% interest in the David Jones, Sydney CBD asset with manager Charter Hall Group and related fund DVP which is forecast to be accretive in FY22. Despite our purchase, we currently have an underweight position in CLW.

**Sold / Reduced**

- **Abacus Property Group** (ABP): As we have noted previously, the portfolio has been reducing its position in ABP since it showed interest in acquiring National Storage REIT (NSR). We fully exited our position in ABP during the December quarter at an average price of approximately $3 per security. We are not supportive of management's capital allocation strategy in the short term and this was vindicated later in the December quarter as ABP undertook a substantial capital raising at a discount to its last disclosed NTA in order to bring down its gearing. Put simply, using debt to purchase securities of NSR and then issuing equity at a discount to your own NTA is not a great capital management strategy in our view.
- **Vital Harvest** (VTH): VTH received a takeover bid from Macquarie Bank's funds management arm. We have owned VTH since its IPO a couple of years ago and started to reduce our position post the takeover bid. Given the bid has full support from the manager, Primewest Group, we do not anticipate much appreciation in the bid price and hence are utilising the sale proceeds for better return opportunities.
- **Scentre Group** (SCG): Scentre group rallied hard during the December quarter due to improving sentiment towards the re-opening of economies as a result of vaccine approval announcements. In addition, equity markets also turned to value stocks which supported the upswing in the SCG share price. We used the opportunity to reduce our holding in SCG but maintained our overweight position.

## Outlook and strategy

While the initial reaction to the A-REITs as a result of Covid-19 was materially negative, the sector has bounced back strongly, returning 13.3% for the December quarter alone. As a result of capital raisings and some asset sales, A-REITs generally remain in sound shape given the strong balance sheet position. 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 two factors:

- Valuations for property assets and henceforth on Net Tangible Assets (NTA) per security for the A-REITs. Retail asset owners took a lot of pain in the reporting season as asset values declined by 10-20% and are now likely to stabilise as local economies begin to re-open. We think office asset values will be flattish 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.
- Earnings growth: especially the ability to reinvest and demonstrate a high return on capital. From an earnings perspective, we expect businesses exposed to structural tailwinds such as industrial demand (Goodman Group) and ageing population (Ingenia Communities) to deliver good medium-term growth while businesses exposed to structural headwinds of online retail (SCG, Vicinity) may find it harder to grow earnings.

Our security selection and portfolio construction process continue to be driven by our proprietary, bottom up research. For the A-REITs, this analysis focuses on the fundamental factors of portfolio quality, management, balance sheet strength and valuations. However, we believe our focus and strategy to own high quality assets and businesses that can deliver solid earnings growth will serve us well over the medium term. First and foremost, our preference remains for well managed REITs with quality assets – GPT, Mirvac, SCG and GMG – while we also continue to add to businesses that demonstrate strong fundamentals for growing earnings over the next 2-3 years. In addition, we remain positive on toll road operator Transurban and small cap REITs – Ingenia and Waypoint REIT.

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