Quarterly Investment Update

Antares Listed Property Fund – March 2020

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Highlights for the quarter

Performance: The Fund returned -35.0% (net of fees) for the March quarter, underperforming its benchmark by 0.6%.

Contributors to performance: Positive contributors – Viva Energy REIT, Stockland (underweight), Vicinity (underweight); Negative contributors – Scentre Group (overweight), Shopping Centres Australasia; Goodman Group

Stock activity: Buys/additions – Goodman Group, Stockland; Sells/reductions – Sydney Airport; Unibail-Rodamco-Westfield

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 March 2020[1]

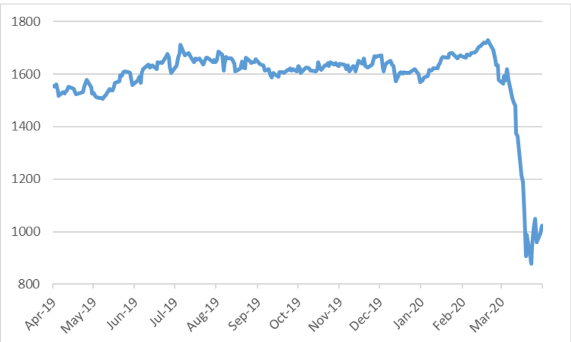
Period	3 months	1 year	3 years pa	5 years pa	10 years pa	Since inception pa
Net return[2] %	-35.0	-31.8	-7.6	-1.8	5.9	6.3
Gross return[3] %	-34.9	-31.3	-7.0	-1.1	6.7	7.1
Benchmark return %	-34.4	-31.7	-5.1	0.2	7.1	6.2
Net excess return %	**-0.6**	**-0.1**	**-2.5**	**-2.0**	**-1.2**	**0.1**
Gross excess return %	-0.5	0.4	-1.9	-1.3	-0.4	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

The Australian REIT sector (as represented by the S&P/ASX 200 A–REIT Total Return Index) delivered a total return of -31.7% for the 12 months to March 2020.

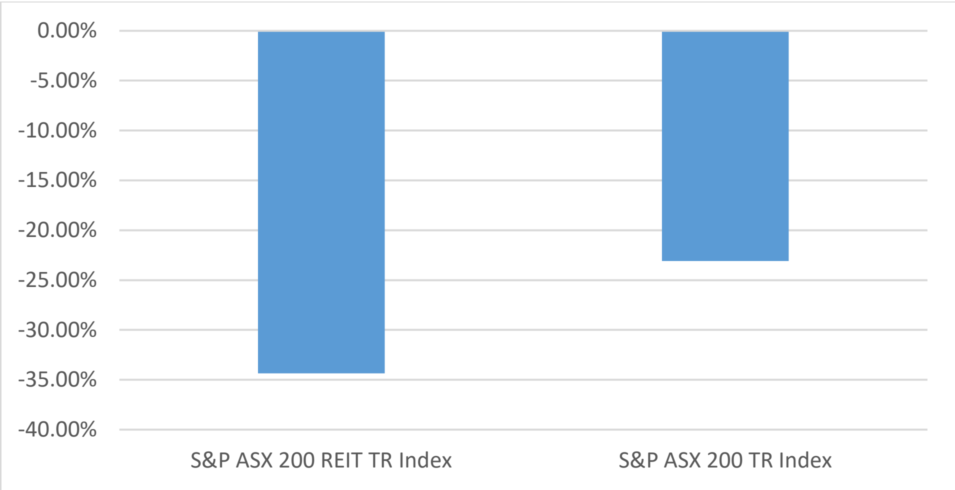
Chart 1: Australian REITs, 12 months to March 2020



Source: Bloomberg, March 2020

For the first three months of the calendar year, the S&P/ASX 200 A-REIT index returned -34.4% as the news around the rapid spread of Covid-19 outside China impacted investor sentiment and succeeded in instigating the fastest bear market in living memory. With many remembering the GFC, A-REITs were sold off given concerns around their balance sheets and financial leverage. As shown in the graph below, the sector materially underperformed the broader market that declined by approximately 24%.

Chart 2: Australian REITs vs S&P/ASX 200, March Quarter 2020

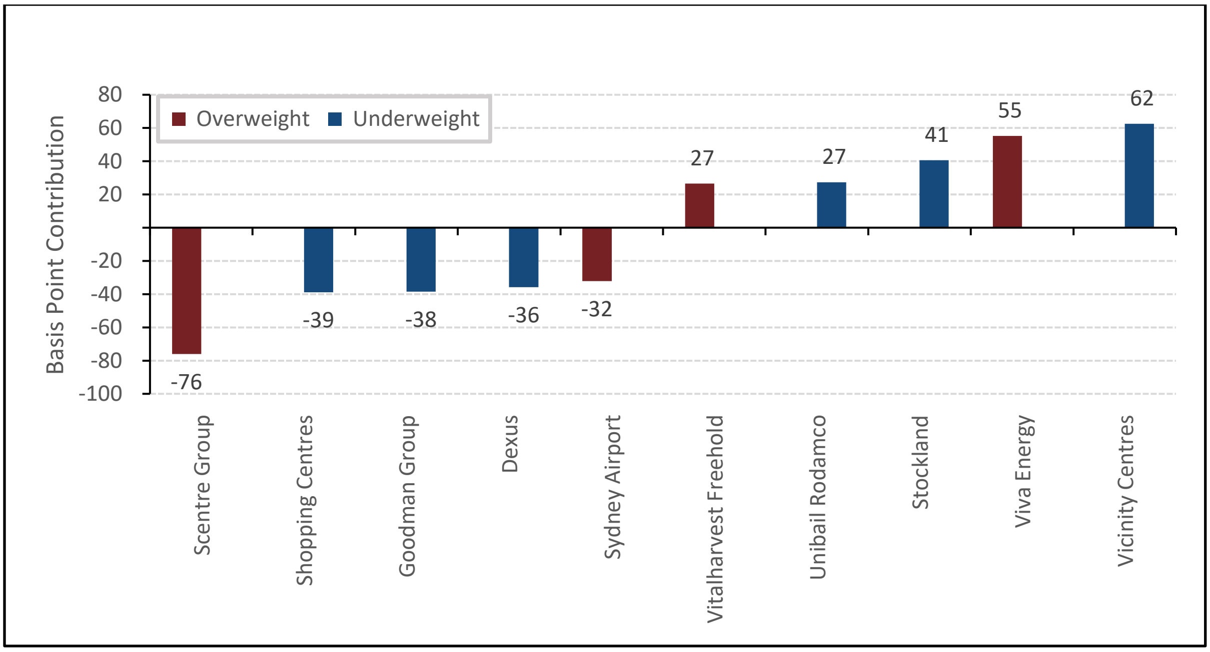


Source: Bloomberg, April 2020

All sectors declined with Industrial AREITs faring best during the March quarter, recording a decline of 9.5%, followed by Office (-23.5%). Diversified AREITs fell by 37.1% with Retail sector AREITs plummeting by 50.0%.

The Antares Listed Property Fund delivered a return of -35.0% (net of fees) for the March quarter.[1] This was a disappointing return although broadly in line with our benchmark S&P/ASX 200 AREIT Total Return Index in a very challenging month which surprised everyone with the speed and size of the sell-off.

Chart 3: Fund attribution – March quarter



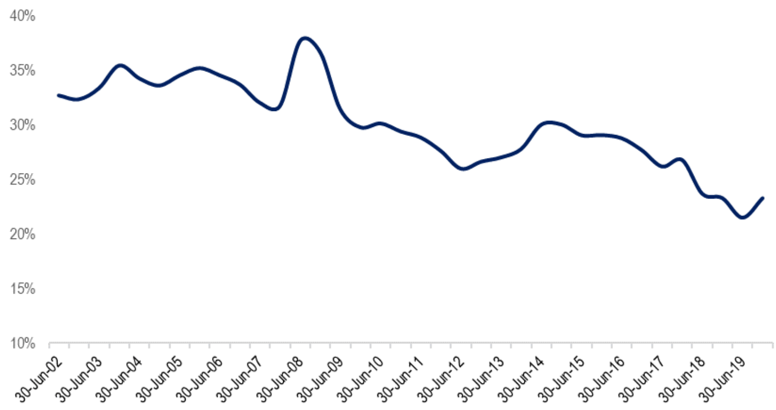
Source: Antares, March 2020

It is disappointing that the portfolio didn't perform better in a down market, especially given the portfolio was constructed with an awareness of the elevated valuations in the overall market. Unfortunately, crises vary in how they play out in the market and instead of a standard cyclical slowdown, the current situation developed very fast due to the global health crisis. In particular, our exposure to Scentre Group (SCG) detracted from performance given the direct impact to the retail industry from social distancing. On the positive side, underweight positions in Stockland (SGP) and Vicinity (VCX) contributed positively during the quarter.

A-REIT Balance Sheet

Given the spread of the virus and the reaction of the investment community is outside our control, we continue to focus on the fundamentals of the businesses in which we invested. When fear grips financial markets, the most obvious place for initial investigation is balance sheet strength and gearing levels. While individual REITs have different gearing levels and thus ability to withstand the economic shock initiated by Covid-19, we note in the chart below that at a sector level the A-REITs are in a strong position when compared to the GFC.

Chart 2: A-REIT Sector Gearing (weighted average)



Source: Company data, Broker Estimates; April 2020

The other lessons learned from the GFC and implemented by the A-REITs included the desirability of staggered debt maturity spread over a number of years and diversity of debt sources, including both domestic and offshore lenders. Given the relatively lower gearing and diversity in debt profile, we believe A-REITs are in a much better position to withstand the current crisis.

Stock activity and commentary

Summary

During the quarter, especially in the month of March, we took the opportunity to make a few changes in the portfolio's holdings. Some of the key changes and rationale include:

Sydney Airport (SYD):

We reduced our overweight position in Sydney Airport. This was done post the announcement of the travel ban imposed by the government. We still believe it is a critical infrastructure asset, one of its kind, but with the increased government policy risk, we decided that it was prudent to reduce our overweight position. While we do not think SYD has any debt concerns currently as they have ample headroom to serve their obligations till the end of the year, we were concerned that if the travel ban was to be extended for a 12 month period, SYD might have issues meeting its debt covenants and require a capital raising. We believe this is a low probability event and hence continue to own SYD in the portfolio.

Unibail-Rodamco-Westfield (URW):

We exited our position in URW. We had a small position (underweight) in URW given our past concerns with URW's balance sheet. Given the evolving situation in the UK and Europe with the virus, we decided to exit our position completely and redeploy the proceeds into other opportunities.

Stockland Group (SGP):

We reduced our SGP underweight following its underperformance during the month. SGP's stock price fell by close to 60% from its February peak and was starting to look attractive on valuation.

Goodman Group (GMG):

We reduced our underweight in GMG and moved closer to index position. We believe the business is in good shape to withstand the current crisis from both an operational and financial perspective. It seems that operationally, things continue to get better for GMG and they have ample balance sheet capacity to grow inorganically in case of any opportunities arising in the current downturn. We also note that GMG is one of the few companies that hasn't withdrawn guidance for FY20. We rate GMG's management highly.

Outlook and strategy

At the time of writing, the rate of increase globally of Covid-19 seems to be declining, and has declined significantly in Australia. While the initial reaction to the A-REITs has been materially negative, and no business can survive zero or materially lower revenue for too long, we believe the decline was an over-reaction. A-REITs 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 evidenced during the February 2020 profit reporting season.

Our security selection and portfolio construction process continue to be driven by our proprietary, bottom up research process that analyses the fundamental factors described above. However, we believe in times of crisis it is more important than ever to own high quality assets supported by strong management teams to navigate us through choppy waters.

The biggest unknown factor or risk for the fund is the duration and severity of the coronavirus crisis. We continue to monitor the situation closely but given the high volatility in the financial markets we are continuously adjusting our portfolio in line with our strategy to reduce leverage and increase exposure to high quality assets that can withstand the current difficult circumstances while retaining the ability to grow on the other side of this crisis.

As for current positioning, the key large cap overweights in the portfolio are Mirvac, GPT and Scentre Group. We think both Mirvac and GPT have a well-diversified base of good quality assets and strong balance sheets to withstand the current crisis. While Scentre Group has materially underperformed the benchmark, given its relatively high gearing, we believe the stock price fall has been overdone at current prices. With our retail exposure, our strategy is to continue owning the best assets operated by a strong management team. While government policies in the short term remain the risk for all retail asset owners, and the duration of the virus impact is unknown, we think good quality retail in dense metro locations will make a quick comeback on the other side of this partial lockdown. Other core positions are overweight holdings in Viva Energy REIT, Sydney Airport and small-cap residential developer Peet.

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