Quarterly Investment Update

Antares Listed Property Fund – March 2021

For adviser use only

Highlights for the quarter

Performance: The Fund returned -0.9% (net of fees) for the March quarter which was 0.4% below its benchmark.

Contributors to performance: Positive contributors – Charter Hall (underweight), BWP Trust (underweight), GPT; Negative contributors – Stockland (underweight), Waypoint, Hotel Property.

Stock activity: Buys/additions – Goodman Group, Transurban; Sells/reductions – Dexus, Charter Hall Long Wale REIT, Vital Harvest, Scentre Group

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 2021[1]

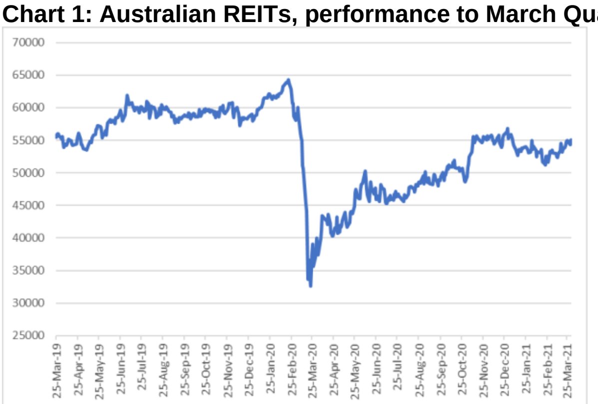
Period	3 months	1 year	3 years pa	5 years pa	7 years pa	10 years pa	Since inception pa
Net return[2] %	-0.9	43.1	4.3	3.5	8.3	9.2	7.5
Gross return[3] %	-0.7	44.1	5.0	4.2	9.0	10.0	8.3
Benchmark return %	-0.5	44.7	7.6	5.6	10.1	10.6	7.4
Net excess return %	**-0.4**	**-1.6**	**-3.3**	**-2.1**	**-1.8**	**-1.4**	**0.1**
Gross excess return %	-0.2	-0.6	-2.6	-1.4	-1.1	-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

The Australian REIT sector (as represented by the S&P/ASX 200 A–REIT Accumulation Index) delivered a total return of -0.5% for the first three months of the 2021 calendar year as the markets absorbed the gyrations in the bond markets. The benchmark bounced back from Covid lows in the last twelve months to recover majority of its decline in March 2020.

Chart 1: Australian REITs, performance to March Quarter 2021



Source: Bloomberg, March 2021

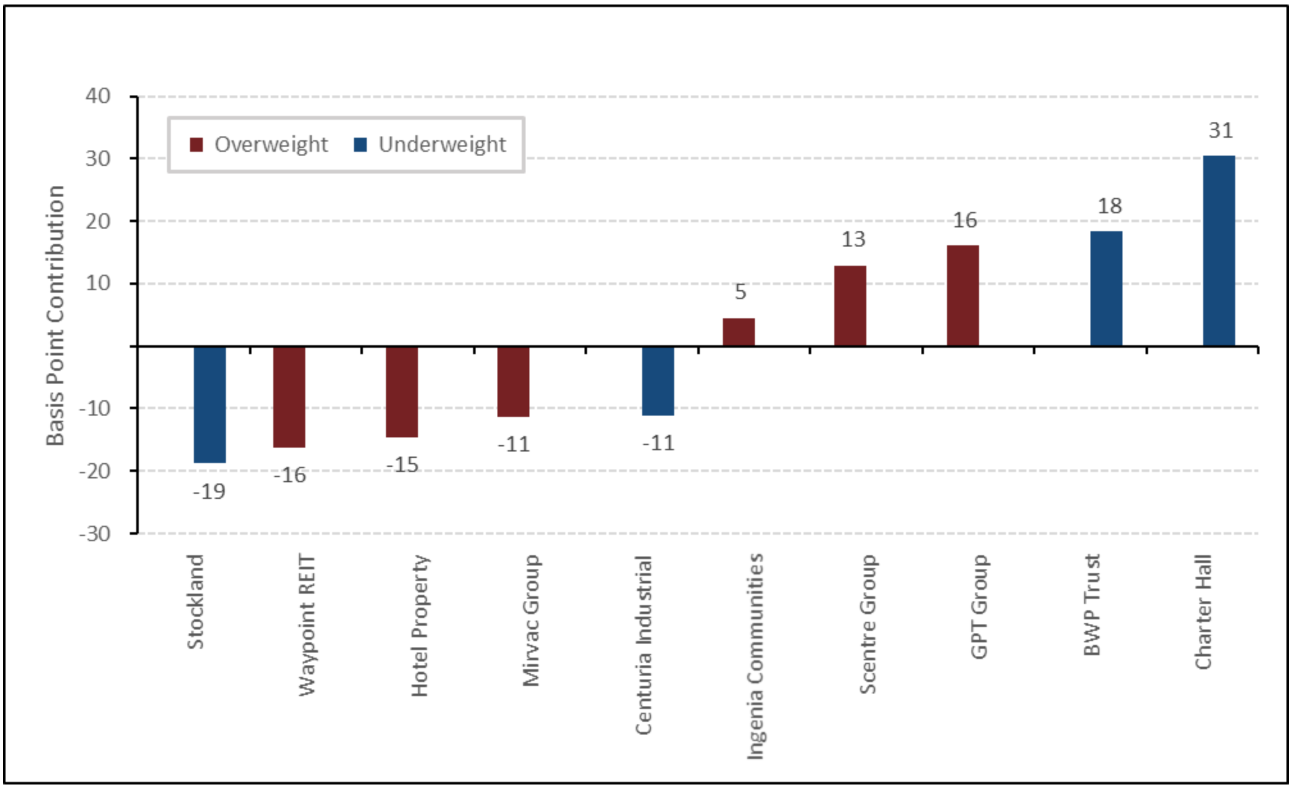
The Antares Listed Property Fund delivered a return of -0.9% for the March quarter of 2021, slightly below the benchmark returns. For the 12 months to the end of March, the fund and the benchmark delivered strong absolute returns of 41% and 43% respectively.

For the March quarter, Office AREITs fared best (+2.8%), followed by Retail (+1.7%) – both sectors that had been hit hard and sold down with coronavirus lockdowns. Diversified AREITs fell by 0.8% while Industrial AREITs declined by 3.6%.

Much of the ground lost by the A-REITs in January and February was made up in March, when the sector bounced by 6.6%. This reflected the encouraging signs that consumer and business confidence was growing as the number of locally acquired coronavirus cases neared zero and the vaccine rollout program commenced.

Portfolio Positioning

Chart 2: Fund attribution – March quarter



Source: Antares, March 2021

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

- **Goodman Group** (GMG) The Industrial AREIT sector remained flavour of the year. 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's ability to deliver above sector growth (~10%) will be highly regarded and continue to drive outperformance in our view. Giving additional comfort is the alignment of interest between shareholders and management incentives which are designed for the medium to long term success of the business. During reporting season, GMG was sold down as a result of rising bond yields and we used the opportunity to expand our overweight.
- **Transurban Group** (TCL): We expanded our position in TCL when the stock was sold off in February due to rising bond yields. Transurban owns high quality toll roads and has a good opportunity to grow through acquisitions and development over the next 3-5 years. It remains a core position for the fund.

Sold / Reduced

- **Dexus** (DXS): We increased our underweight to DXS as its security price moved close to our valuation target. We are concerned about the deteriorating supply demand fundamentals of the office sector to which Dexus is highly exposed. While Dexus has done a great job selling assets at book value to improve balance sheet strength, it will struggle to grow earnings in our view over the next 12-24 months and will likely continue to trade a discount to NTA in that environment.

- **Charter Hall Long WALE REIT** (CLW): We added CLW to the portfolio in the December quarter on the back of a capital raising but maintained an underweight position in CLW. However, we exited CLW in the March quarter on the back of the rising bond yield environment and better investment opportunities within the A-REIT sector.
- **Vital Harvest** (VTH): As noted in the previous quarterly report, VTH received a takeover bid from Macquarie Bank's funds management arm. We have owned VTH since its IPO and decided to fully exit the position in January to redeploy proceeds into better returning opportunities within the A-REIT sector.
- **Scentre Group** (SCG): Scentre group rallied hard during the last six months 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. Post reporting season, we chose to reduce our position significantly and are now underweight SCG in our fund. While we still believe SCG is a high-quality operator of retail assets, headwinds in the physical retail sector will make it hard to drive rental growth while continuous replacement of tenants – specialties or department stores – leads to capital spending and a lower return on capital for the portfolio.

Outlook and strategy

A-REITs bounced back strongly from declines in March 2020 and returned approximately 45% for the past 12 months. A-REITs generally are in a sound shape given the strong balance sheet position, some of it achieved through capital raising, and are well positioned for acquisitions and developments. With a couple of exceptions, the A-REIT's capital management strategies were sensible, as has been the case during the more recent profit reporting seasons. In addition, focus on sustainability and governance is healthy and should lead to long term value creating. Most A-REITs today have targets for a carbon neutral world and are striving hard to achieve those targets.

In our view, going forward, the focus from the market for AREITs will be on two factors:

- **Valuations for property assets** and henceforth on Net Tangible Assets (NTA) per security. Retail asset owners took a lot of pain in the past 12 months 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. However, not all industrial assets are created equal and the ones that are likely to see competition are at risk of facing a decline in values.
- **Earnings growth**: especially the ability to reinvest and demonstrate a high return on capital. From an earnings perspective, we continue to 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. We are also very focussed on supply constraints within the property sub-sectors and especially for the properties held by A-REITs in our portfolio. In generally, we are concerned about the supply of space in office markets and select industrial markets, as well increasing competition in retail from the online shift. 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 physical asset owners with relatively better-quality assets that could demonstrate solid earnings growth – GPT, Mirvac, TCL and GMG. In addition, we remain positive on select small cap REITs – Ingenia, Hotel Property Investment and Waypoint REIT.

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