

Asian REIT Fund flying high



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We don't often give ourselves a pat on the back but in this case it's warranted. The recent performance of the Asian REIT Fund has been most satisfying, for the team and our investors.

For the year to March 2018, the Fund produced a total return of 13.18%, beating the Index (BBAREIT) return of 7.86% - an impressive outperformance of 5.32%¹. Nor did this result come at the expense of meeting the Fund's two primary objectives, which are to:

- 1) Deliver a yield in excess of 110% of the benchmark yield; the Fund yielded 6.21% versus 4.54% for benchmark as at March end.
- 2) Deliver lower-than-market volatility. The Fund's volatility is over 9% lower than the benchmark since inception (July 2011).

The one-year performance might be impressive but short term outperformance doesn't count for much if you don't repeat it. On this measure, too, investors have good reason to feel pleased. Over three and five year periods, and since inception in July 2011, APN's Asian REIT Fund has beaten the benchmark index.

This strong outperformance is due to a couple of factors and offers a clue to our long term approach to commercial property investing.

First, with Singapore REITs posting a strong performance (21.55% in 2017 compared with 7.86% for the index) our overweight position has, quite literally, paid handsome dividends. A relatively large position in Mapletree Greater China Commercial Trust (MAGIC – a REIT listed in Singapore that owns assets in Hong Kong and China), was the biggest contributor, delivering a return of 27.83% in up to March 2017, versus the Singapore REIT market return of 21.55% and the Index return of 7.74%¹.

MAGIC is a company riding high on the retail sales turnaround in Hong Kong. The REIT's main asset is Festival Walk, a nearly one million square foot mall – roughly the same size as Westfield Penrith - that was once the region's largest. Festival Walk maintained a 100% occupancy when the REIT reported its latest quarterly results with retail sales and footfall traffic enjoying healthy year-on-year increases of 6.4% and 4.2%².

We expect this trend to continue, which should lead to higher rents being collected (and distributed) by the REIT in years to come.

The second factor was at the other end of the spectrum - an underweight exposure to the Japan REIT sector. The Japan REIT sector returned 3.14% compared to the Index performance of 7.86%. Within the Fund's JREIT holdings, we enjoyed a positive contribution to performance

from stock selection overall, in addition to the benefit gained from being underweight to Japan and a modestly depreciating Yen.

Our overweight positions in MCUBS Midcity (3227 JP) which returned 25.56%, and Heiwa Real Estate (8966 JP), which returned 33.22% (vs Index at 3.14%), both made valuable contributions to stock selection attribution in Japan.

This is where we earn our fee. Holding overweight positions where we see value is the bread and butter of active management. These three companies are amongst the highest conviction positions in the Fund. Having taken a strong view it's great to have some vindication for it, and for our investors to see the benefit.

This approach is instructive. In the short term, markets can be quite volatile. On occasion, this will impact how the Fund's REIT investments are priced, sometimes causing investor angst.

This is to be expected. In Warren Buffett's 1993 Berkshire Hathaway shareholder letter, he notes that "In the short-run, the market is a voting machine – reflecting a voter-registration test that requires only money, not intelligence or emotional stability." In the long run however, as the father of stock analysis, Benjamin Graham, says, it is a "weighing machine".

The business of the investment team at APN Property Group is in weighing each investment relative to each other, not counting the votes, and acting accordingly. By focusing on the fundamental drivers of commercial property returns, our robust and time-tested approach has not only consistently delivered our Asian REIT investors a stable, monthly income at lower-than-market risk, it has also consistently delivered a total return in excess of our benchmark.

1. Past performance is not an indicator of future performance.
2. Forecasts are not guaranteed.

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APN Property Group

A specialist real estate investment manager

We actively invest in, develop and manage real estate and real estate securities on behalf of institutional and retail investors. APN's approach to real estate investment is based on a 'property for income' philosophy.

Established in 1996, APN's listed on the ASX and manages \$2.8 billion (as at 31 December 2018) of real estate and real estate securities. APN trades on the ASX under the code 'APD'.

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