



# APN Asian REIT Fund Investor update - 23 March 2020

Writing this from my home office, having not been surrounded by the usual buzz of a workplace for a week, it is clear these are very special and difficult times. The news headlines globally are more confronting each day, and the stock market has echoed these extraordinary sentiments. Therefore, I wanted to give you an update on how we are managing the APN Asian REIT Fund through this period.

## 1 Could the APN Asian REIT Fund unit price go lower?

Yes. It is possible. There is no way to guarantee how the market will continue to react when there is so much fear - we have seen this translated to wild swings in stock prices and selling which we would describe as 'panic selling'.

Few stocks or companies are unaffected by the current disorder. Volatility is high and may remain this way for some time given the amount of uncertainty regarding Coronavirus/ COVID-19 and the measures being taken to combat it.

In managing the APN Asian REIT Fund through this period, we are trying not to be distracted by the 'noise' and remain focused on the income stream as we have done as a firm for over 20 years. The income delivered by Asian REITs remained intact through the global financial crisis in 2008-2009 and we have every reason to believe that it will be the same this time around. While no two crises are the same, we remain diligent in our investment process to ensure that our investment case for each company we own remains robust.

We also believe that if ever there was a time that regular cash distributions would be highly valued, it will be in the coming months when we are past 'panic station'. Investors need to remember that markets consistently overreact to uncertainty but can come 'roaring back' when clarity improves.

## 2 What's going to happen to the APN Asian REIT Fund's distributions? How sustainable is the distribution income?

We launched the APN Asian REIT Fund because we wanted to offer Australian income investors all the benefits that local listed property investors have come to depend on, but with additional diversification, focussed on the key gateway markets in Asia like Singapore, Tokyo and Hong Kong.

The Asian REIT market, which is focused predominantly on delivering an income stream from the ownership of high quality commercial property, are separate and distinct entities to the real estate developers that operate in the same markets. Asian REITs offer unique exposure to Asian commercial property that are income focused - these REITs have mandated limitations on how much non-rental income the REITs are exposed to thereby limiting the volatility of their income stream, as well as mandated payout ratios related to the income the REIT has to distribute to shareholders.

We intend to maintain the APN Asian REIT Fund's distribution. While we do not have a crystal ball and have no control over how stock prices behave, what we can do is remain true to the rigor of our investment process. Our focus remains on REITs with quality assets in good locations with a diversified pool of strong tenants and experienced management teams that will continue to deliver consistent income for APN Asian REIT Fund investors.

Investors in commercial real estate should remember that the lease contract is a legal obligation on the tenant to pay the rent ahead of any obligation to shareholders. This 'cash flow priority' is a key consideration when looking at income risk. If you believe that listed companies will survive this maelstrom, it is fair to conclude that their landlords are in a more secure position.

## 3 How does the Asian REIT sector compare to 2008?

Warren Buffett has said "When you combine ignorance and leverage, you get some pretty interesting results."

One of the key reasons the Asian REIT sector appeals to us is because of strong governance measures enforced by various governing bodies within Asia when REIT legislation was introduced in the region in the early 2000s. One of these measures relates to gearing restrictions. For example, REITs listed in Singapore are subject to a 45% gearing limit - this ensures the REITs do not over extend themselves. In the last financial crisis, we saw the equity value of highly levered companies reduce swiftly. This time around I suspect it will be no different.

Fortunately, balance sheet prudence has always been a part of REITs in Asia - leverage across the sector was around 35%, very similar to the levels today. The only difference is that the Asian REIT market is a lot bigger today at \$418bn market capitalisation (194 members) as at 31 December 2019 vs \$56bn (63 members) at 30 June 2009.

Nevertheless, as I said before no two crises are the same and we can't predict where things will end this time. However, I do think that Asian REITs, as owners of quality commercial property underpinned by long term leases in place by companies that continue to require space to operate from, have defensible cash flow streams that should remain intact. From a portfolio risk standpoint, the Fund also remains very well diversified across our key markets, various property sector types as well as tenants.

While this is likely a 1 in 100 year event and it may take some time to play out first, it is almost certainly temporary and second, it is a 'real world' event unlike the GFC's genesis in 2008. The difference here being the overwhelming unity we are seeing between governments globally, central banks and businesses to 'fix' the current issues – that is a war chest that does not exist anywhere else in the world or in financial markets.

#### 4 Should I sell?

Let me be very clear on this. This is not personal advice by any stretch – you must make your own mind up.

If you are a self-directed investor we strongly recommend that you speak to a trusted professional advisor.

If you are thinking of liquidating investments in response to what has happened recently, we very strongly urge you to consider whether this is the right course of action.

#### 5 What's the upside?

I don't have a crystal ball. What I do know is that as I look globally, there are investors everywhere that are massively overreacting to news (good and bad). Our portfolio of real commercial property assets has a real physical value and we believe is well placed to continue to deliver strong and sustainable cash flows as it has done for a number of years. While it will be imprudent for me to promise that there will be no temporary reduction in income for some companies, we believe our portfolio remains well positioned.

We expect that we will be in for a much longer period of even lower rates. Reliable cash income streams will continue to be highly prized by investors who need income – of all shapes and sizes. If the Government and Central Banks response follow through on Donald Trump's 'We're going big' response effort, a stabilisation and significant rebound in the unit price of the APN Asian REIT Fund would not surprise us. In the meantime we will continue to focus as we always have on delivering our investors consistent income.

#### 6 Further information or assistance

We are committed to open, regular and transparent communication with all of our investors.

If you have any queries regarding your investments with us, we would be more than happy to discuss these queries with you. Our Investor Services phone line is 1800 996 456; or you may contact us at [apnpg@apngroup.com.au](mailto:apnpg@apngroup.com.au). And for our financial adviser clients, please don't hesitate to reach out to your Regional Manager or contact us on 1300 027 636.

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#### **Contact us** **APN Property Group Limited**

Level 30, 101 Collins Street,  
Melbourne, Victoria 3000

Investor Services Hotline 1800 996 456  
Adviser Services Hotline 1300 027 636

Email [apnpg@apngroup.com.au](mailto:apnpg@apngroup.com.au)  
Website [apngroup.com.au](https://apngroup.com.au)