

# First Sentier Wholesale Property Securities Fund

Formerly the Colonial First State Wholesale Property Securities Fund

## Quarterly Factsheet

31 March 2021

For Adviser use only

### Portfolio Description

The fund invests in a broad selection of Australian listed property companies, with between 10 to 20 stocks typically held in the portfolio.

### Investment Strategy

The fund's strategy is to bring together specialist resources in order to identify undervalued Australian real estate securities with minimal downside risk, sustainable earnings growth and good qualitative attributes. The fund uses proprietary forecasting and valuation methodologies and a disciplined portfolio construction process with an over-riding focus on absolute and relative risk. The fund invests predominantly in Australian securities and therefore does not hedge currency exposure.

### Investment Objective

To provide medium-to-long-term capital growth and income to the investor by investing in a portfolio of Australian listed property securities. The Fund aims to outperform the S&P/ASX 200 A-REIT Accumulation Index over rolling three-year periods before fees and taxes.

### Key Investment Personnel and Experience (Industry / Firm)

Stephen Hayes	Head of Property Securities	(1995 / 2012)
Peter Cashmore	Portfolio Manager	(1993 / 2016)

### Product Overview

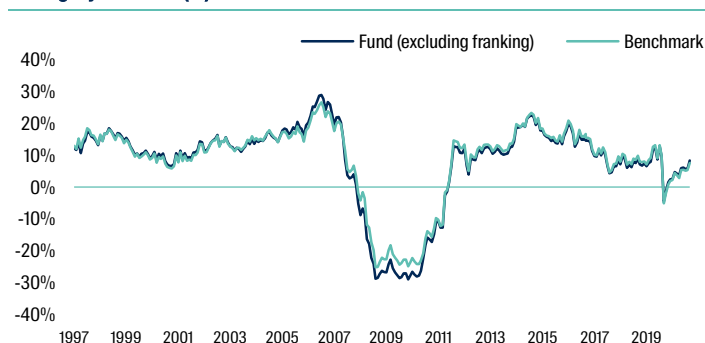
APIR code	FSF0004AU
Inception date	07 July 1994
Fund Size (AS)	364 million
Benchmark	S&P/ASX 200 A-REIT Accumulation Index
Number of stock holdings	13
Buy / Sell spread	0.10% / 0.10%
Minimum investment (AS)	5,000
Management cost (p.a.)*	0.82%

\* Information on Management Costs (including estimated indirect costs) is set out in the Fund's PDS.

### Performance Summary (%)

Period	3mth	1yr	3yr	5yr	7yr	10yr	SI
Net return	-0.5	44.6	8.4	5.7	10.1	10.2	6.9
Benchmark return	-0.5	44.7	7.6	5.6	10.1	10.6	7.6
Excess net return	0.0	0.0	0.8	0.2	0.0	-0.4	-0.7

### Rolling 3 year return (%)



### Top 5 holdings

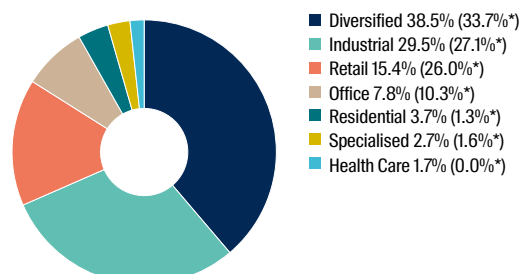
Stock
Dexus
Goodman Group
GPT
Mirvac
Stockland

Sorted alphabetically

### Risk Characteristics

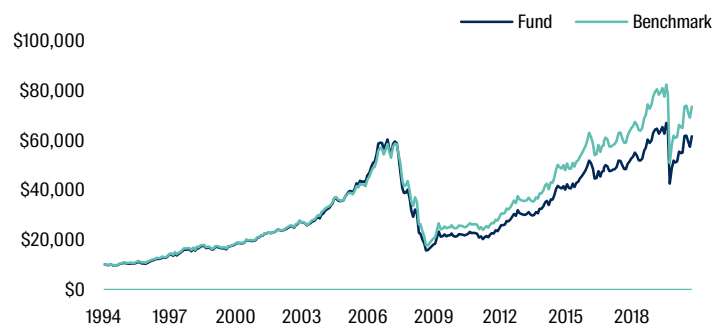
Period	1yr	3yr	5yr	7yr	10yr	SI
Fund standard deviation (%)	20.1	25.2	21.0	18.8	17.0	16.0
Benchmark standard deviation (%)	20.4	26.0	21.7	19.6	17.5	16.1
Tracking error (%)	1.7	1.8	1.7	1.6	1.4	2.3
Fund Sharpe ratio	2.2	0.4	0.2	0.4	0.5	0.2
Information ratio	0.6	0.9	0.6	0.5	0.4	0.0
Beta	1.0	1.0	1.0	1.0	1.0	1.0
Cashflow adjusted turnover (%)	17.5	27.7	20.8	17.4	18.6	

### Sector Breakdown

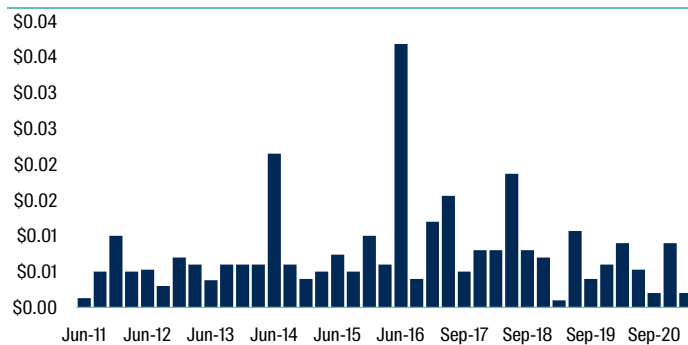


\*Benchmark weight

## Growth of AUD 10,000 Investment Since Inception



## Distributions



## Top 3 attributors to performance (3 months)

Sector	Attr.
Health Care REITs	0.17%
Diversified REITs	0.16%
Residential REITs	0.10%

## Top 3 detractors to performance (3 months)

Sector	Attr.
Industrial REITs	-0.16%
Retail REITs	-0.15%
Office REITs	-0.01%

Performance returns are calculated net of management fees and transaction costs. Performance returns for periods greater than one year are annualised. Past performance is not a reliable indicator of future performance.

Data source: First Sentier Investors 2021

Data as at: 31 March 2021

## Market review

The ASX 200 A-REIT Index underperformed the broader market returning -0.47% in the March 2021 quarter, with the ASX 200 Index returning 3.1%. The best sector performers were the diversified AREITs and AREITs with material exposure to CBD office markets and shopping mall owners.

The rollout of Covid-19 vaccines has now begun in Australia and community transmission of the virus has remained suppressed. This has boosted optimism now that the majority of remaining restrictions have been loosened, paving the way for a strong rebound in economic growth. The Australian economy continues to recover, whilst retail sales for February fell -0.8% (mom) they were up strongly 9.1% (yoy) providing further evidence of a healthy household sector.

The yield on 10-year Australian government bonds rose 82 bps to close at 1.8% during the March quarter. The 'risk free rate' remains supportive of the A-REIT sector despite the rise in yield over the March quarter.

The economic recovery is providing a good foundation for the real estate sector with dividends and valuations likely to be well supported in 2021. The low interest rate environment is particularly supportive of the housing markets with housing prices rising in all capital cities. With the vaccination programme in Australia having slowed with the European vaccine manufacturers failing to deliver the vaccines on the agreed timelines, shorter term risks do remain. However, overall the economic backdrop and low interest rate environment are supportive of the AREIT sector.

## Fund Performance

Our exposure to childcare facilities contributed to performance over the March quarter. Our key exposure to the sector outperformed after it released a solid set of first half results, which included 100% rent collections, net operating profit growth of +15% YoY and guidance for full year distributions per share to be up +5.7% YoY.

Meanwhile, our underweight to the discretionary retail sector weighed on performance as the major Australian shopping mall landlords outperformed the wider sector amidst the factor rotation towards 'value' stocks. However, we maintain a cautious view of the sector as it continues to face the long term challenge of rising e-commerce adoption, as well as the potential for further near-term Covid-19 related headwinds.

Our exposure to logistics assets also detracted from performance. While our main exposures reported strong results and gave positive outlooks during the month, the sector was seemingly caught up in the broader factor rotation away from 'growth' stocks amidst rising inflation concerns.

## Market Outlook and Fund Positioning

Covid-19 has materially affected the earnings outlook of most A-REITs in 2020, with discretionary retail landlords being most heavily impacted.

The December 2020 AREIT reporting season witnessed a number of AREITs and particularly those landlords with material retail asset exposure, write back some of the rent relief provisions put in place last year. These were in response to the commercial landlord code of conduct measures recommended by the State Governments. With those qualifying tenants having previously received either rent waivers and/or rent abatements. The provisions put in place in 2020, were largely estimates given large time consuming task of assessing all the tenant rent relief requests. With now six months of tenant revenue evidence available, a number of AREITs have reduced last year's provisions which saw a number of positive one-off write backs in the results.

Across the board rent collection activity had increased materially from reported Q4 FY2020 levels in part in response to re-based rent transactions being concluded plus the re-opening of key markets such as Melbourne.

As expected, the residential metrics were strong when measured by sales volumes and operating margins. Office landlords adopted more flexible leasing offers across their portfolios in response to demand shifts as tenants evaluate their future office space needs against a backdrop of more flexible office/home operating environments.

Leasing spreads across the various retail portfolios pointed to downward pressure, as spreads either from renewals or new leases experienced negative reversions.

The majority of AREITs have now provided guidance for the 2H reporting period, which is supplying a level of investor confidence returning to the sector post COVID-19.

With the strong capital markets, several AREITs announced their intention to build out and/or expand their current funds management offerings.

Logistics landlords reported both comparatively stronger net property income growth as well as property valuation increases. Development activity across various logistics platforms are the preferred risk-adjusted approach to re-cycling capital as further improve the already high portfolio quality.

The portfolio is well very positioned for the continued economic recovery with exposure to high quality real estate across logistical warehousing, "A" grade office buildings, shopping centres and residential development with a focus on the East Coast markets.

**Portfolio Beta** measures the portfolio's sensitivity to benchmark movements. Mathematically, it is the covariance of the portfolio vs the benchmark divided by the variance of the benchmark. The covariance and variance are ex ante calculations based on current weights and historic patterns of return over the past five years.

**Turnover** is the average of sales and purchases divided by the average portfolio size.

**Cashflow Adjusted Turnover** is the same as above, except that the lesser of sales and purchases is used in place of the average of the two. This is to adjust for turnover that is related to investing inflows or selling stocks to meet outflows rather than related to active management of the portfolio.

[www.firstsentierinvestors.com.au](http://www.firstsentierinvestors.com.au)

## For further information

### Head of Investment Sales and Key Accounts

Chris King +61 2 9010 5249

### Key Account Manager - NSW

Angela Vincent +61 2 9010 5230

Paul Sleiman +61 2 9010 5393

### Business Development Manager – NSW

Justin Sultana +61 2 9010 5326

### Key Account Manager - VIC/TAS

Nicholas Everitt +61 3 9225 5055

### Business Development Manager - VIC/TAS

Jack Heinz +61 3 9225 5056

### Key Account Manager - QLD

Quin Smith +61 4 5509 5505

### Business Development Manager – QLD

Julie Day +61 4 6641 3176

### Key Account Manager - WA/SA/NT

Nathan Robinson +61 4 0327 2440

This report has been prepared by and is issued by First Sentier Investors (Australia) IM Ltd (ABN 89 114 194 311, AFSL 289017) (**FSI AIM**) which forms part of First Sentier Investors, a global asset management business. First Sentier Investors is ultimately owned by Mitsubishi UFJ Financial Group, Inc (**MUFG**).

It is directed at persons who are professional, sophisticated or wholesale clients and has not been prepared for and is not intended for persons who are retail clients and must not be reproduced or transmitted in any form without the prior written consent of FSI AIM. A copy of the Financial Services Guide for FSI AIM is available from First Sentier Investors on its website.

This material contains general information only. It is not intended to provide you with financial product advice and does not take into account your objectives, financial situation or needs. Before making an investment decision, you should consider whether this information is appropriate in light of your investment needs, objectives and financial situation. Total returns shown for the Fund or any Portfolio have been calculated using exit prices after taking into account all ongoing fees and assuming reinvestment of distributions. Past performance is no indication of future performance.

The product disclosure statement (**PDS**) and Information Memorandum (**IM**) for the First Sentier Wholesale Property Securities Fund, ARSN 087 570 429 (**Fund**) issued by Colonial First State Investments Limited (ABN 98 002 348 352, AFSL 232468) (**CFSIL**) should be considered before making an investment decision. The PDS or IM are available from First Sentier Investors on its website.

CFSIL is a subsidiary of the Commonwealth Bank of Australia (**Bank**). The Bank, MUFG and subsidiaries thereof do not guarantee the performance of the Fund or the repayment of capital by the Fund. Investments in the Fund are not deposits or other liabilities of MUFG, the Bank or their respective subsidiaries, and investment-type products are subject to investment risk including loss of income and capital invested. First Sentier Investors was acquired by MUFG on 2 August 2019 and is now financially and legally independent from the Bank.

To the extent permitted by law, no liability is accepted by the Bank, MUFG or any affiliates thereof for any loss or damage as a result of any reliance on this information. This information is, or is based upon, information that we believe to be accurate and reliable, however neither the Bank, MUFG nor any affiliates thereof offer any warranty that it contains no factual errors. Any opinions expressed in this material are the opinions of FSI AIM at the time of publication only. Such opinions are subject to change without notice.

Copyright © First Sentier Investors (Australia) Services Pty Limited 2021

All rights reserved.

The indexes referred to in this document ("Index") are products of S&P Dow Jones Indices LLC and/or its affiliates and has been licensed for use by FSI AIM. Copyright © 2021 S&P Dow Jones Indices LLC, a division of S&P Global, Inc., and/or its affiliates. All rights reserved. Redistribution or reproduction in whole or in part are prohibited without written permission of S&P Dow Jones Indices LLC. For more information on any of S&P Dow Jones Indices LLC's indices please visit [www.spdji.com](http://www.spdji.com). S&P® is a registered trademark of S&P Global and Dow Jones® is a registered trademark of Dow Jones Trademark Holdings LLC. Neither S&P Dow Jones Indices LLC, Dow Jones Trademark Holdings LLC, their affiliates nor their third party licensors make any representation or warranty, express or implied, as to the ability of any index to accurately represent the asset class or market sector that it purports to represent and neither S&P Dow Jones Indices LLC, Dow Jones Trademark LLC, their affiliates nor their third party licensors shall have any liability for any errors, omissions, or interruptions of any index or the data included therein.