Australian Unity Property Securities Fund

Fund Update
30 September 2020

The Australian Unity Property Securities Fund (Fund) operates as a 'split trust' with three separate classes of units.

- Ordinary Units provide investors with a proportional entitlement to the portfolio's total income, as well as capital gains or losses.
- Growth Units provide investors with a higher proportion of capital movement and a lower proportion of income compared to an equivalent investment in Ordinary Units.
- Income Units provide investors with a higher proportion of income, and a lower proportion of capital movement, than an equivalent investment in Ordinary Units.

All classes of units are closed to new investors.

Performance as at 30 September 2020

Ordinary Units

	3 mths %	1 yr %	3 yrs % p.a.	5 yrs % p.a.	7 yrs % p.a.	10 yrs % p.a.	Since inception % p.a.
Distribution Return	0.15	1.95	2.90	3.45	3.51	4.04	6.34
Growth Return	1.84	(35.36)	(7.99)	(2.62)	0.46	1.98	(0.85)
Total Return	1.99	(33.41)	(5.09)	0.83	3.97	6.02	5.49
S&P/ASX300 A-REIT Accumulation Index	7.38	(15.81)	4.12	5.99	8.79	9.75	7.99

Income Units

	3 mths %	1 yrs %	3 yrs % p.a.	5 yrs % p.a.	7 yrs % p.a.	10 yrs % p.a.	Since inception % p.a.
Distribution Return	0.25	3.85	5.18	5.58	5.23	5.74	7.51
Growth Return	0.00	(11.27)	(2.08)	(0.59)	0.16	0.61	(0.42)
Total Return	0.05	(7.42)	3.10	4.99	5.39	6.35	7.09

Growth Units

	3 mths %	1 yrs %	3 yrs % p.a.	5 yrs % p.a.	7 yrs % p.a.	10 yrs % p.a.	Since inception % p.a.
Distribution Return	0.00	0.18	0.32	0.72	0.98	1.37	4.27
Growth Return	6.82	(68.06)	(23.25)	(10.23)	(1.34)	3.03	(5.05)
Total Return	6.82	(67.88)	(22.93)	(9.51)	(0.36)	4.38	(0.78)

Inception date for performance calculations is 30 June 1991.
Returns are calculated after fees and expenses and assume the reinvestment of distributions. Past performance is not a reliable indicator of future performance. On 24 April 2019, the investment management for the fund was internalised

How the listed property market performed

Listed property on the Australian Securities Exchange (ASX), which is known as the Australian Real Estate Investment Trust (A-REIT) sector, covers publicly listed companies that own retail, industrial and office property, as well as other specialist property assets.

For the quarter ending 30 June 2020, the Australian listed property sector, as measured by the S&PASX 300 A-REIT Accumulation Index, returned 7.4% outperforming the broader equities market as measured by the S&P/ASX 300 Accumulation Index which returned -0.1%. Over the past twelve months, the A-REITs returned -15.8% underperforming the broader equities market which returned -10.0%.

We are witnessing a growing disconnect between public and private markets at present, with numerous listed property stocks (A-REITs) trading at discounts to 30 June asset backing. A-REITs in general own properties with above average asset quality. At present, sentiment is unduly bearish toward office, especially if one is of the opinion cities will once again re-open. While retail malls have significantly been impacted by restrictions on trade and people movement, current retail property pricing for the larger mall landlords does not appear to appropriately distinguish between those landlords dominating their respective catchments or the substantial landbanks these malls reside on. Many traditional malls are located on large swaths of land in densely populated metro areas where there is an inherent underlying value in the land for commercial and/or residential use. It appears many malls have been tarnished with the same Covid brush, although neighbourhood shopping centres have shown their resilience. Covid-19 has certainly disrupted equity pricing of various property types, at some point, this disconnect coupled with today's (and likely tomorrow's) low rate environment will see mergers and acquisitions once again prevail to close this gap.

Following a quarter of gains led by the retail landlords, the gains continued this quarter with Goodman Group (GMG) and Charter Hall (CHC) both leading the market higher with gains over 20%. Stockland Group (SGP) also delivered strong returns over the quarter after posting a better than expected outlook for their residential property market exposure. The balance of the index constituents were relatively flat over the quarter although Unibail-Rodamco-Westfield (URW) underperformed as the market reacted negatively to the "re-set" plan which outlined a deleveraging strategy including an equity raise, sale of assets and a decrease in dividends. In the smaller capitalisation space, fund managers performed strongly with the likes of Centuria Group (CNI) and PrimeWest Group (PWG) posting good returns. Defensive landlords with long lease durations also performed well with Charter Hall Long WALE (CLW) and service station landlords strong over the period.

The recent reporting season key themes:

- Cash collection: was of significant interest to investors with office landlords collecting 90% to 100% of their rent roll while retail landlords collected around 50% in the June quarter;
- Capital management: was of high importance with several listed landlords raising capital over the past six months, while some landlords elected to stay the course and opt for raising debt, reducing distributions or selling assets to manage liquidity requirements; and
- Sector and geographic location: were prominent, as focus was on sector type, covenant quality and lease tenure. As state handling of the pandemic diverged so too did the markets view of property type and geographic skew.

Listed landlords generally declined to provide an earnings outlook for the next financial period, however a few landlords did provide guidance around the distributions. As the methods of contact tracing and managing virus hotspots become more established and restrictions ease, clarity around earnings will become more forthcoming.

The A-REIT sector is trading at around a 3% premium to last stated Net Tangible Assets (NTA), this excludes Unibail-Rodamco-Westfield and Goodman Group; and A-REIT sector gearing sits at a manageable 24%.

Outlook

In general terms, returns over the past few years have been strongly influenced by substantial property yield compression and relative attractiveness to the long-term bond rate. In the short-term market volatility is likely to continue, however as the pandemic evolves returns shall increasingly be guided by underlying property fundamentals.

Contact us

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Asset Allocation

Asset class	Portfolio %
Listed Property	73.02
Cash	26.98

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