

Global Property Securities

Quarterly Review and Outlook

As at June 2016

Key Highlights

- The Australian and US markets are outperformance over the June quarter.
- Material risks to global economic growth rates remain. Central banks continue to implement unprecedented policy measures.
- The strategy continues to remain well diversified, both by geography and sector.

Market Insights

Global property securities continued to appreciate in the June quarter.

Returns from the asset class have been buoyed by declining bond yields and expectations that global interest rates will remain lower for longer. The stable earnings streams and relatively high dividend yields from property securities have appealed to investors against this background.

The Australian market was a standout following an interest rate cut from the Reserve Bank of Australia. The large US market also outperformed most other regions.

Strategy Performance

The strategy rose in value by nearly 2% in the quarter, a return which was behind the benchmark Index. Exposure to Continental European shopping mall operator Unibail Rodamco was unhelpful – the valuation was marked lower towards the end of the period following the UK's vote to leave the European Union in the 'Brexit' referendum. This caused investors to question future economic growth rates and consumer confidence in the region, which could affect retail sales.

Exposure to stocks including Hammerson and Land Securities in the UK also detracted from relative performance. The stocks performed poorly towards the end of the period following the UK's vote to leave the European Union in the 'Brexit' referendum. This caused investors to question the outlook for tenant demand and, in turn, rental growth for UK commercial property owners.

On the positive side, positions in several US stocks performed well and made positive contributions to performance. Notable examples included Brandywine Realty Trust, Equinix and Simon Property Group.

Strategy Activity

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Market Outlook and Strategy Positioning

Developed country sovereign bond yields have fallen further, to unprecedented low levels. With the market's focus on yield-orientated investments due to global uncertainty and extraordinary low interest rates, many global REITs are now trading at large premiums to private market values. From a fundamental perspective and over the longer term, it is difficult to comprehend how capital can be preserved, given the extent of over-valuations and negative total return expectations.

Global investment markets could remain volatile for the foreseeable future, reflecting uncertainty regarding how the UK government and the European Union will approach Britain's exit negotiations. Investor attention will also increasingly shift towards the US presidential elections in early November. With government bond yields worldwide moving lower and likely to remain lower for longer, global REITs appear to remain well placed to benefit from further yield-based flows.

Whilst we acknowledge that the current environment is likely to prevail for an extended period of time, investing in over-inflated, long duration assets will simply not deliver the required risk-adjusted real estate returns. Investors unenviably face the real prospect of losing money.

Against this background, we remain focused on preserving capital, and generating reasonable risk adjusted real estate returns by investing in REITs with high quality buildings and high barriers to entry.

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