Colonial First State Wholesale Index Property Securities Fund

Monthly Factsheet

31 August 2020

Portfolio Description

To invest in a diversified portfolio of companies representative of the Australian property securities market.

Investment Strategy

Detailed risk analysis is used to design a portfolio of property securities which provides the greatest likelihood of matching the performance of the S&P/ASX 200 A-REIT Accumulation Index. All securities in this fund are maintained within a very close margin to their weight in the index. The fund predominantly invests in Australian property securities and therefore does not hedge currency risk.

Investment Objective

To closely track the S&P/ASX 200 A-REIT Accumulation Index with the aim of generating returns (before tax and fees and assuming income is reinvested) comparable to the listed property sector of the Australian sharemarket, as measured by that benchmark over rolling one-year periods.

Product Overview

APIR code	FSF0655AU
Inception date	13 July 2004
Fund Size (A$)	785 million
Benchmark	S&P/ASX 200 A-REIT AccumulationIndex
Number of stock holdings	20
Buy / Sell spread	0.10% / 0.10%
Minimum investment (A$)	5,000
Management cost (p.a.)*	0.4%

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

Performance Summary (%)

Period	1mth	3mth	1yr	3yr	5yr	7yr	10yr	SI
Net return	7.8	6.9	-	-	-	-	-	-
Benchmark return	7.9	7.0	-	-	-	-	-	-
Excess net return	-0.1	-0.1	-	-	-	-	-	-
Income return	0.0	1.6	-	-	-	-	-	-
Growth return	7.8	5.3	-20.4	0.5	1.7	4.3	4.8	-2.6

Note: Net return is the return after management fee

Sector Breakdown (%)

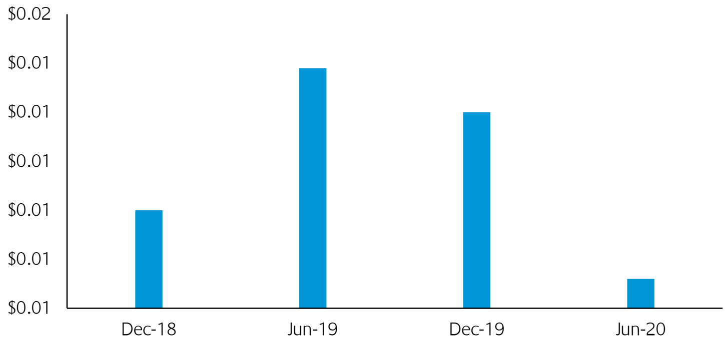
Sector	Fund Weight
Real Estate	99.29
Others*	0.71

*Includes Cash and Futures

Realindex Investments

Realindex aims to deliver performance slightly better than the reference benchmark (before fees) by intelligently managing the trade-off between implementation costs and tracking risk and using implementation strategies to add incremental, risk controlled value. Realindex aims to deliver portfolio returns that are consistent with the risk and return characteristics of the benchmark index.

Distributions



Top 10 Holdings

Stock	Fund Weight
Goodman Group	27.66
Scentre Group	10.89
Dexus	8.94
Stockland	8.77
Mirvac	7.71
GPT	6.93
Charter Hall Group	5.41
Vicinity Centres	5.22
SCA Property Group	2.24
Charter Hall Long WALE REIT	1.98

Market review

A-REITs gained an impressive +7.9% during the month amid the June 2020 reporting season, outperforming the broader ASX 200 Index by +5.1%.

Investor optimism was underpinned by the growing belief that the COVID-19 situation was coming under control, while the economy continues to be supported by extensive fiscal and monetary support. It appears likely that Victoria will begin progressively easing its strict Stage 4 restrictions in the coming weeks as the number of new daily cases reported in the state fell below 100 by month end. This has provided some support to A-REITs with material exposure to the discretionary retail sector in the state.

The diversified sub-sector (+9.8%) posted the strongest gains, followed by retail A-REITs (+8.4%) and the industrial sub-sector (+7.6%), while the embattled office sub-sector (+3.4%) lagged the broader group. Meanwhile, A-REITs with material exposure to childcare gained between 12-14%.

On the economic front, Australia has now 'officially' entered into recession, with data showing that GDP contracted -7.0% in the three months to June (Q2), following a -0.3% decline in the prior quarter. This marks Australia's largest quarterly decline on record, however, the domestic economy has fared better than most other developed economies.

The data release highlighted that the domestic household savings rate surged from 6% to nearly 20%, which saw household consumption plunge 12% for the quarter, reflecting the downbeat consumer response to the economic crisis. Victoria's strict second-wave lockdowns, which came into effect in early August, were not reflected in the Q2 data, and therefore, are expected to weigh on the next quarter's result.

Fund Performance and Activity

The fund aims to deliver returns that are consistent with the risk and return characteristics of the benchmark index.

Market Outlook

The June 2020 reporting season has provided insight into the impact that COVID-19 has had on A-REITs, which has materially affected earnings and valuations for some names. The impact of the pandemic has been most pronounced within the retail sector, particularly shopping malls, which have the highest exposure to non-discretionary expenditure and SME (Small to Medium Enterprises) tenants.

SMEs were the prime target for the Code of Conduct announced by the Federal Government, which was structured to address the most significantly affected retail tenants and landlords. A-REITs with large exposures to Victorian retail assets have been most challenged in recent months, given the state's strict COVID-19 restrictions. For mall owners, the Code of Conduct protocols were executed against a backdrop of mandated store closures and subdued rent collection rates, particularly in April, followed by some uptick in the months leading into June.

Rent collections have continued to improve in the months following the June 2020 reporting date. There has also been a significant amount of ongoing, bespoke negotiations between landlords and retail tenants, which has seen a combination of rental waivers and deferrals being offered. Anecdotal evidence suggests retailers have typically opted for a material component of the package to comprise of rental waivers where possible and landlords have been generally supportive of this approach, as opposed to holding significant rent deferment receivables.

Meanwhile, office portfolios reported modest revaluation gains and supportive earnings, given the comparatively modest COVID-19 impacts over the shorter term, drawn from a lower exposure to SMEs, while their ancillary retail exposures are linked primarily to food and service related tenancies. The longer-term outlook of the office sector remains uncertain against the backdrop of the 'work from home' dynamic, and its implications for office floor space demand.

Operational updates across logistics portfolios highlighted further revaluation gains, underpinned by the COVID-19 driven acceleration in tenant demand for warehousing space and increased capacity needs for parcel traffic, which is now seeing volumes consistently at previous peak period levels. Fund managers reported a continued appetite by both wholesale and retail investors for direct property exposures, particularly for logistics assets, which has driven initial yields to all-time lows. This has unsurprisingly seen A-REITs with logistics portfolios becoming increasingly active in their development activities to meet demand.

Residential activity, in terms of contracts on hand and net deposits, materially improved in the second half of FY20 in response to the suite of stimulus packages offered by both the Federal and State governments, which are expected to support the house and land market in particular.

The majority of A-REITs reported supportive capital management metrics during the reporting season, drawn from equity raisings and/or flat to modest valuation declines, excluding the pureplay mall A-REITs. As there is still uncertainty around the recovery prospects for retailers with unpaid rent and regarding the ongoing negotiations with tenants amid COVID-19, as well as material uncertainty on the recovery prospects coupled with future space demand by key tenants, most AREITs have not offered earnings and distribution guidance for FY21

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 2020

Data as at: 31 August 2020

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