



# Real estate update

APN ASIAN REIT FUND ARSN 162 658 200

MARCH 2016

## Performance 29 February 2016

The APN Asian REIT Fund ("Fund") delivered a total positive return of 6.53% for the month of February. This strong return followed a positive month in January and brings the 2016 total return year to date of 8.59%<sup>1</sup>. In the broader Asia Pacific Equity Market, returns for the month continued to lag the REIT market with a negative 2.61%<sup>2</sup> return vs. the region's REIT returns (Bloomberg Asian REIT Index) of positive 7.63%<sup>2</sup>, further highlighting the resilience of the Asian REIT markets vs. equities.

	1 month	3 months	6 months	1 year	3 years pa	Since inception <sup>6</sup> pa	Standard deviation since inception pa
APN Asian REIT Fund Income <sup>3</sup>	0.58%	2.33%	3.99%	7.51%	8.04%	6.55%	
APN Asian REIT Fund Total return <sup>4</sup>	6.53%	8.08%	8.07%	4.62%	15.13%	17.63%	9.61%
Asia REIT Index <sup>5</sup>	7.63%	11.03%	15.02%	10.18%	16.70%	17.07%	10.61%
Over performance / (Under performance)	(1.10%)	(2.95%)	(6.95%)	(5.56%)	(1.57%)	0.56%	

3 Distributions may include a capital gains component.

4 Returns shown are net of fees and expenses and are annualised for periods greater than one year. Assumes distributions are reinvested. Investors' tax rates are not taken into account when calculating returns. Past performance is not an indicator of future performance.

5 Bloomberg Asia REIT Index.

6 Returns calculated since 19 July 2011 (when the Fund commenced).

## The Market\*

Looking at the key markets the Fund is invested in, the Japan REIT market was again the strongest performer in February with a return of 11.97%<sup>2</sup> as the sector continued to enjoy a boost from the Bank of Japan's (BOJ) announcement of negative interest rates last month that caused a rotation to yield focused sectors such as REITs. The Fund holds an underweight position in Japan due to the below average dividend yields of the Japan REIT (JREIT) market. The Singapore REIT market also enjoyed a solid month with a 5.51%<sup>2</sup> return after expectations for further interest rate hikes by the US Federal reserve was delayed. The Fund holds an overweight position to the Singapore REIT sector due to the attractive above average dividend yields of the Singapore REITs – this is in line with the Fund's key objective of delivering above average income returns to our investors, while minimizing volatility. The Hong Kong REIT market was slightly negative for the month posting a -0.45%<sup>2</sup> return, however the Fund's stock selection in Fortune REIT, a non-discretionary retail REIT, delivered a strong outperformance in this market.

As at the end of February the Fund's annual income return was 6.15%, strongly outperforming the Index yield of 4.50%. Since the Fund's inception in July 2011, the APN Asian REIT Fund has delivered a total return of 17.63% per annum which is comprised of 11.07% capital growth per annum and 6.55% in income per annum.

## In the news

News on the Japan office market continues to be positive – broker Miki Shoji announced January data for office buildings in Tokyo's five central wards with vacancy rate improving 2bp over the month to 4.01% at end-January 2016. Rents also remained on an upward trend, rising 4% over the past year. Further declines in vacancy are expected due to limited new supply over 2016-17 with the expectation of continued demand underpinning rental growth over this period.

The strong office market fundamentals are also being reflected in the results that the JREITs are reporting. The largest office JREIT, Nippon Building Fund reported that they expect dividend increases going forward to be driven by rent advances (internal growth), and Japan Excellent, another major office JREIT that we hold in our portfolio, also reported expansion in rent growth, thus the company plans to raise the dividend over the coming periods. Within the Fund's JREIT holdings, we continue to hold the largest percentage in the office sector to reflect our conviction in the office market's improving fundamentals that will provide upside to dividends.

Other news of interest from Japan was the announcement from GLP JREIT that it achieved a negative borrowing cost. GLP JREIT, which we hold overweight in the Fund, managed through interest rate swaps to reduce the real interest rate on a loan to -0.009%. While this is the first JREIT to procure a loan at such a low rate since the BOJ introduced its negative interest rate policy last month, we expect more activity among other JREITs and real estate firms to procure new loans and replace existing loans aimed at capitalizing on the low rates. This in turn will likely put downward pressure on cap rates and is positive for real estate values.

1 In local currency terms

2 In AUD

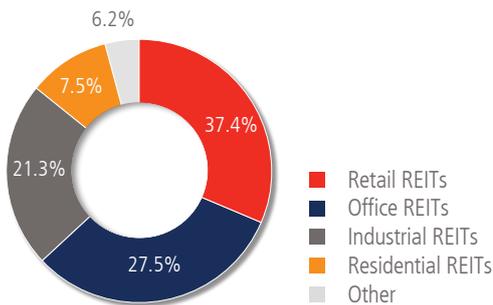
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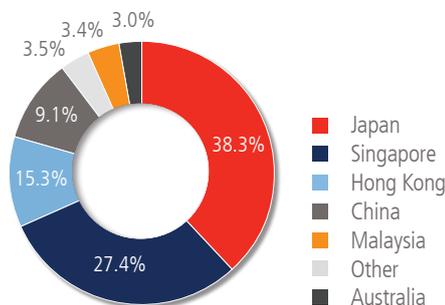
Moving on to the Hong Kong market, data points regarding the retail sector have been lacklustre for some time due to factors such as falling visitor arrivals from Mainland China resulting from visa restrictions and a fall in retail spending due to a clampdown on corruption. The latest overall retail sales figures show a drop for the eleventh consecutive month, with January registering a 6.5% decline over the past year. Not surprisingly sales of luxury items (watches, jewellery etc) have been hardest hit. Retail street rents are forecast to fall circa 10% over 2016 accordingly to Jones Lang Lasalle. Despite the overall gloomy retail environment, the Hong Kong retail focused REITs that the Fund owns, such as Link REIT and Fortune REIT, have been insulated and are actually seeing positive retail sales growth and positive rental reversions. This is because the Fund's exposure is primarily to non-discretionary retail sales that serve local catchments and are hence far less impacted by visitor arrivals and their spending patterns.

## Sector allocation 29 February 2016



Note: Asset allocations may change depending on market conditions and in accordance with the Fund's mandate.

## Geographic allocation 29 February 2016



## Top 5 Asian REIT holdings 29 February 2016

Stock	Sector	% of APN Asian REIT Fund	% of Asia REIT Index <sup>6</sup>
Keppel Dc REIT	Specialised	4.97%	0.00%
Prosperity REIT	Office	4.90%	0.31%
Gip J-REIT	Logistics	4.81%	1.56%
Heiwa Real Estate REIT Inc	Diversified	4.50%	0.44%
Link REIT	Retail	4.17%	7.93%

<sup>6</sup> Bloomberg Asia REIT Index.

## Platform availability

ASX mFund, netwealth

## About the Manager

APN Funds Management Limited (APN FM) is a wholly owned subsidiary of APN Property Group Limited (ASX code: APD), a specialist real estate investment manager. An active investment manager with a concentrated focus on income, APN has a strong record of delivering a range of property based investment solutions for institutional and retail clients since 1996.

## Investment team

Corrine Ng Portfolio Manager, Asian Real Estate Securities  
 Anyu Tan Fund Analyst, Asian Real Estate Securities  
 Pete Morrissey Fund Manager, Real Estate Securities

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