

Australian Listed Property Trust Portfolio

Performance Report – September 2020

Market overview and portfolio performance



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The DNR Capital Australian Listed Property Trust Portfolio outperformed its benchmark for the period. Key stock contributors were Unibail-Rodamco-Westfield (URW), Vicinity Centres (VCX) and Mirvac Group (MGR). Key stock detractors were Stockland (SGP), Charter Hall Long WALE REIT (CLW, no holding) and Abacus Property Group (ABP, no holding).

The S&P/ASX 200 A-REIT Accumulation Index was down 1.58% during the period. REITs outperformed the broader market in September, as the sector continued to show value versus the majority of defensive names. The fund managers finished middle of the pack in September. Charter Hall (CHC) -0.6% outperformed Goodman (GMG) -1.0% as industrial-exposed names lost some ground after rallying strongly in the wake of COVID-19.

The retail REITs were the worst performers after a better-than-expected reporting season in August. Scentre Group (SCG) -2.7% fell away after initially surging higher on the back of improving rent-collection figures. Vicinity (VCX) -4.8% fared worse as the majority of its assets, including the key Chadstone shopping centre, are located in Melbourne and remain in a locked-down state. Unibail-Rodamco-Westfield (URW) -24.0% was by far the worst performer after announcing to the market that it would be raising capital, selling assets and cutting costs in order to repair the balance sheet.

Portfolio overview

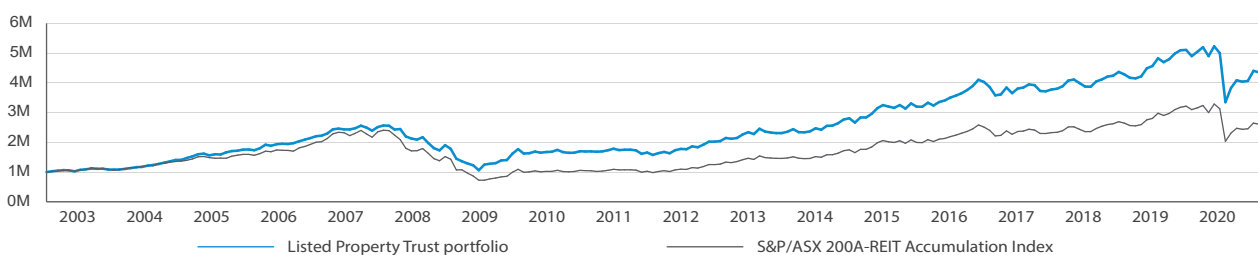
| | |
|-----------------------|---|
| Portfolio profile | Medium-term capital growth through active management |
| Designed for | Investors who seek an active but disciplined exposure to Australian Listed Property Trusts |
| Investment objective | To outperform the S&P/ASX 200 A-REIT Accumulation Index by 4% p.a. (before fees) over a rolling three year period |
| Investable universe | ASX listed securities with a focus on S&P/ASX 200 A-REIT's |
| Number of stocks | 4–8 |
| Asset allocation | Australian A-REIT's 80–100% Cash 0–20% |
| Portfolio stock limit | 35% maximum weighting |

Residential names were again mixed, with Mirvac (MGR) +3.3% outperforming Stockland (SGP) -4.5%. Stockland has more leverage to the residential boom expected on the back of government stimulus, however it has already performed strongly on this thematic and attention may now turn to its poorer retail and office book. Mirvac, conversely, has a higher quality retail and office portfolio, which should serve it well when the reopening gains some steam.

Office was among the top performers during the period, after a poor month in August. Concerns about both the structural and cyclical headwinds facing the sector are well known, although there is some debate about how much the current discount to net tangible assets reflects this. Dexus (DXS) +0.7% and GPT (GPT) 1.8% were both higher during the month as rumours of potential acquisition activity circled around both office names.

Investment growth

Time period: 1/10/2002 to 30/09/2020



Source: DNR Capital

Performance data relates to the DNR Capital model portfolio. Performance of an investment in this model portfolio through a Portfolio Service may have different performance to the performance in this monthly update as a result of different policies and procedures at different Portfolio Service operators. Past performance is not an indication of future performance. No allowance has been made for taxation and fees are not taken into account.

Gross active return

| | 1mth % | 3mth % | 6mth % | 1yr % | 3yr % | 5yr % | 7yr % | 10yr % | Incep.* % |
|---------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|
| Listed Property Trust Portfolio | -1.18 | 7.75 | 29.93 | -12.85 | 4.61 | 6.36 | 9.15 | 9.91 | 8.52 |
| S&P/ASX 200 A-REIT Accumulation Index | -1.50 | 6.96 | 28.27 | -16.65 | 3.72 | 5.56 | 8.49 | 9.55 | 5.47 |
| Excess Return | 0.32 | 0.79 | 1.66 | 3.80 | 0.89 | 0.80 | 0.66 | 0.36 | 3.05 |

* Inception date—October 2002

Investment philosophy

DNR Capital believes that quality businesses outperform through the cycle and focuses on identifying those quality securities that can defend and grow their business and purchases them when they are trading below intrinsic value. By maintaining a strong valuation discipline with a medium-term focus, DNR Capital looks to identify those securities where the current price does not fully reflect the intrinsic value.

Investment strategy

The investment process uses a combination of bottom-up security selection with a top-down overlay.

The bottom-up security selection process will favour those with the following characteristics:

- Strong underlying assets - DNR Capital believes higher quality assets will outperform through the business cycle both in terms of capital appreciation and yield growth.
- Low-debt to medium-debt levels - DNR Capital invests in securities where the debt profile is appropriate given the quantum and nature of cash flow produced from the underlying portfolio.
- High-quality management with a strong track record of delivering asset and share price performance.
- Stable portfolio investment strategy - DNR Capital believes a changing asset mix can be a signal of problems or poor management.

DNR Capital follows a range of economic indicators that are reviewed regularly from a top-down portfolio perspective. These measures are used to formulate an economic overview which provides a backdrop to investment decision making and influences portfolio construction.

Platform access

- AMP PPS
- HUB24
- OneVue

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