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Charter Hall

Charter Hall Maxim Property Securities Fund

Report March 2019

Charter Hall Maxim Property Securities Fund	Month %	3 Months %	1 Year % p.a.	3 Years % p.a.	5 Years % p.a.	10 Years % p.a.	Since Inception % p.a.*
Growth	+3.10	+9.63	+17.62	+7.68	+10.84	+10.17	+2.30
Income Return	+1.07	+1.14	+3.90	+4.15	+5.07	+6.46	+3.50
Total Return (After Fees but Before Tax) **	+4.17	+10.77	+21.52	+11.83	+15.91	+16.63	+5.80
S&P/ASX 300 A-REIT Accumulation Index	+6.04	+14.38	+25.92	+10.19	+14.90	+15.29	+4.70
Value Add	-1.87	-3.61	-4.40	+1.64	+1.01	+1.34	+1.10

*Fund inception date October 2005. **Please note the Fund's management fee was reduced on 16 May 2014. The Fund's after fees but before tax performance only reflects the new management fee from this date.

Past performance is not an indicator of future performance.

QUALITATIVE RATING

Recommended Lonsec Research

Superior SQM research

HIGHLY RECOMMENDED ATCHISON CONSULTANTS

QUANTITATIVE RATING

MORNINGSTAR™

Overall rating out of 123 Equity Australia Real Estate funds as of 30 September 2018.

FE CROWN FUND RATING

Charter Hall Maxim Property Securities Fund

MARKET REVIEW

It seems the US Federal Reserve has now fallen in line with what financial markets had been predicting since late last year, that there would be no more official rate rises in the US in the forseeable future. During its Federal Open Market Committee (FOMC) meeting in March, the Fed announced it would scrap plans for further official interest rate hikes this year and acknowledged that economic growth in the US had slowed. It is now predicting GDP growth in 2019 of 2.1% (previously 2.3%) and 1.9% in 2020 (previously 2.0%).

This news subsequently sent financial markets into a spin, with US bond yields falling 30bp during the month to 2.3%, leading to an inverted yield curve (i.e. long-term rates are lower than short-term rates). Historically, this has been a strong predictor of a future near-term recession but has typically been positive for equity markets in the early months following an inversion. Accordingly, the S&P 500 has delivered +4.2% since the FOMC meeting and finished +1.8% for the month of March.

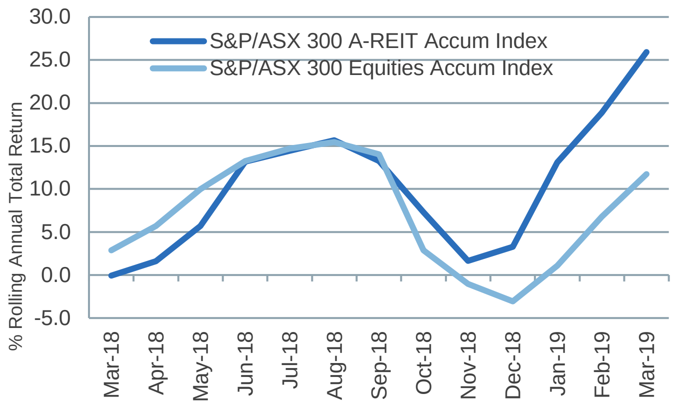
Sentiment across Europe is also faltering as the European Central Bank (ECB) slashed its 2019 GDP estimate to 1.1% from 1.7% and cut all its inflation forecasts, while in Britain Brexit uncertainties persist.

Locally, economic data released during March pointed to a slowing economy. GDP grew by 2.3% for the year ending December, which was lower than the prior quarter result of 2.8%. Retail sales growth deteriorated to 2.8% annually to January, compared to 3.1% in the prior month. While the NAB Survey of Business Conditions and Westpac-Melbourne Institute Index of Consumer Sentiment both showed lower reads. A key driver of this negative turn in sentiment has been the fall in national dwelling prices, led by Sydney -10.9% and Melbourne -9.8% for the year ending March 2019, according to CoreLogic.

Money markets are expecting the Reserve Bank (RBA) will cut rates in the next 12 months from the current record low 1.5%, with domestic 3 Year Bond rates now showing a yield of 1.4%. On monetary

Figure 1: A-REITs vs. Equity Performance

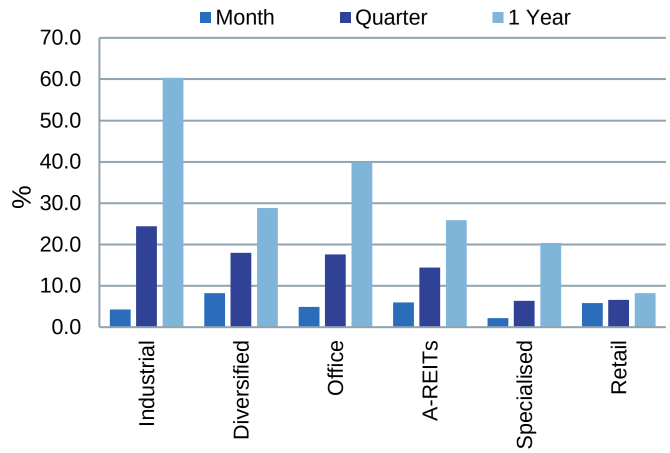
12 Months to 31 March 2019



Source: IRESS

Figure 2: A-REIT Sector Performance

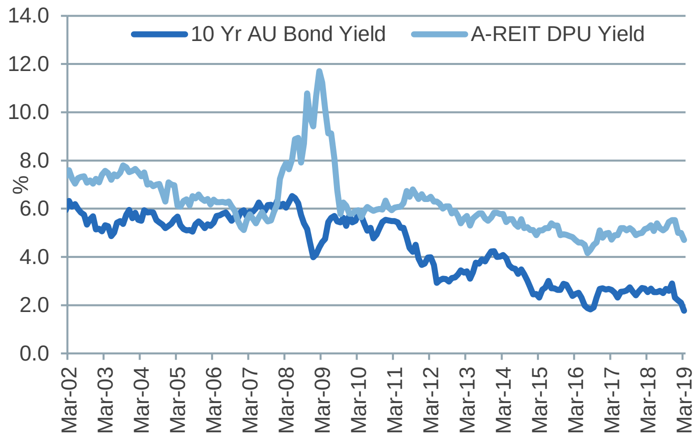
12 Months to 31 March 2019



Source: Bloomberg

Figure 3: A-REITs Sector DPS Yields vs. 10 Year Bond Yields

2002 - 2019



Source: IRESS

policy RBA Governor Lowe reiterated that there are "plausible scenarios" under which the next move in rates could be up or down. Clearly, the outcome of the upcoming Federal election could be key for further shift in sentiment.

The Australian 10 year yield closed the month at 1.78%, down from 2.32% at the end of December.

REIT SECTOR PERFORMANCE

For the month of March, the S&P/ASX 300 A-REIT Accumulation Index returned +6.0%, outperforming the Australian equities market (S&P/ASX 300 Accumulation Index) by 5.3%, as investors saw falling bond yields as positive for A-REIT portfolio valuations.

Over the March quarter, A-REITs outperformed Australian equities, with the S&P/ASX 300 A-REIT Accumulation Index delivering +14.4% compared to +10.9% for Australian equities. For the 12 months to March 2019, the S&P/ASX 300 A-REIT Accumulation Index delivered +25.9%, which was above the broader equities market return of +11.7% (Figure 1).

At the A-REIT sub-sector level, Industrial A-REITs were the best performer for the March quarter delivering a return of +24.4%, led by Goodman Group (GMG +25.6%). The next best sub-sector was Diversified A-REITs which returned +18.0%, followed by Office A-REITs at +17.6%, Healthcare A-REITs with +16.7%, Retail A-REITs at +6.6%, Specialised A-REITs at +6.4%, and Residential A-REITs at +2.4% (Figure 2).

Standout performers this month were Charter Hall (CHC, +16.7%) following a number of upward earnings revisions by analysts and Stockland (SGP, +10.0%) as some investors were likely attracted to its cheap valuation.

SECTOR ACTIVITY

During March, Dexus (DXS) announced it had entered into an agreement with the Dexus Wholesale Property Fund ("DWPF") to jointly acquire the remaining 50% interest in the MLC Centre for a total price of $800m and an estimated FY20 passing yield of 4.2%. DXS cite their rationale for the transaction being the office tower is under rented, the ground floor redevelopment opportunity, and the ability to obtain full control of the asset. However, deal accretion is subject to when the exchangeable securities, which were used to fund the deal, are exercised.

Eureka Group Holdings Limited (EGH), in which the Fund invests, announced it had received all of the required clearances from the Tweed Shire Council to enable individual titles to be issued to complete the strata titling of Lot one of the Terranora property. We see this long-waited announcement as positive and could provide the group an additional $10m in cashflow in 2019, in contrast to current FY19 guidance of $7.8m to $8.3m NPAT.

Hotel Property Investments (HPI) major tenant Coles Group (COL) announced it has entered into a JV with KKR-backed Australian Venue Co (AVC) in relation to its hotel operations. AVC will pay COL $200m to take over the day-to-day operations of the pubs whilst COL will continue to run the liquor store operations. While the strength of the covenant isn't impacted, and the lessee remains unchanged, it is likely this deal will be positive for HPI as it provides them with a partner more willing to exploring growth opportunities in the pub sector.

DEBT AND CAPITAL MARKETS

Charter Hall Education Trust (CQE) completed a $120m equity raising during March. The raising comprised a $100m placement at an offer at $3.35, which implied a 5.1% discount to the distribution adjusted prior closing price and a 4.8% distribution yield. The funds will be used to acquire 13 early learning centres for a total consideration for $75.5m and to provide working capital for further acquisitions. The raising was well bid by institutions and the Fund participated in the raising with a view to maintaining its percentage exposure in CQE.

Elsewhere, A-REITs were active in debt capital markets this month with Scentre Group (SCG) pricing a €500m fixed rate note at 1.45% for 10 years, Peet Group (PPC) pricing a $75m unsecured fixed rate note at 6.75% for 5 years, and Dexus (DXS) pricing a $425m exchangeable security with an exchangeable price of $15.05 and 2.3% coupon with a 7 year term.

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MERGERS & ACQUISITIONS

In M&A news, ESR Real Estate (Australia) completed its takeover of Property Link (PLG) during the month and accordingly PLG was suspended from trading on the ASX. Subsequent to this announcement, Centuria Capital Group (CNI) announced the receipt of $137 million cash consideration from ESR Real Estate (Australia) Pty Limited (ESR) for its previous 19.51% stake in PLG.

Elsewhere, residential developer Villa World (VLW) received an unsolicited proposal from AVID Property Group Australia Pty Ltd (AVID) to acquire all of the shares in Villa World by way of scheme of arrangement for $2.23 per share. It's unlikely this will be the final bid given the recent arrival of Singaporean-listed group Ho Bee Land on VLW's register. The current bid price implies a forward P/E ratio of 10x which appears a low bid multiple. The VLW board is currently assessing the proposal.

In addition, Cromwell Group (CMW) confirmed it is in discussions with UK listed REIT RDI (LSE:RDI), after press speculation CMW had approached RDI with a takeover offer. RDI controls a £1.6 billion ($2.97bn) property portfolio in Britain and Germany and would certainly supplement CMW's thirst for European FUM growth

SECTOR VALUATION

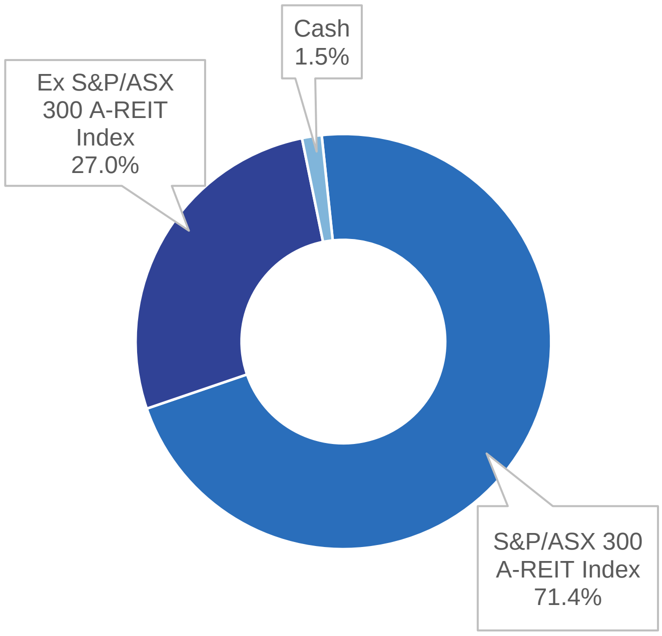
The recent strong appreciation in A-REIT prices, following the collapse in bond yields has led to stretched valuations across the A-REIT sector.

At the end of March, the sector was trading on a 32% premium to net tangible assets (NTA) on an index weight basis or 23% premium on an equal weighted basis. Both measures imply the sector looks expensive, especially given the limited upside in asset valuations remaining in this cycle.

Conversely, A-REIT distribution yields continue to look attractive relative to interest rates, with near record spreads. Currently, the A-REIT sector distribution yield of 4.7% offers a 290 bps premium to 10 Year Bonds in Australia (Figure 3).

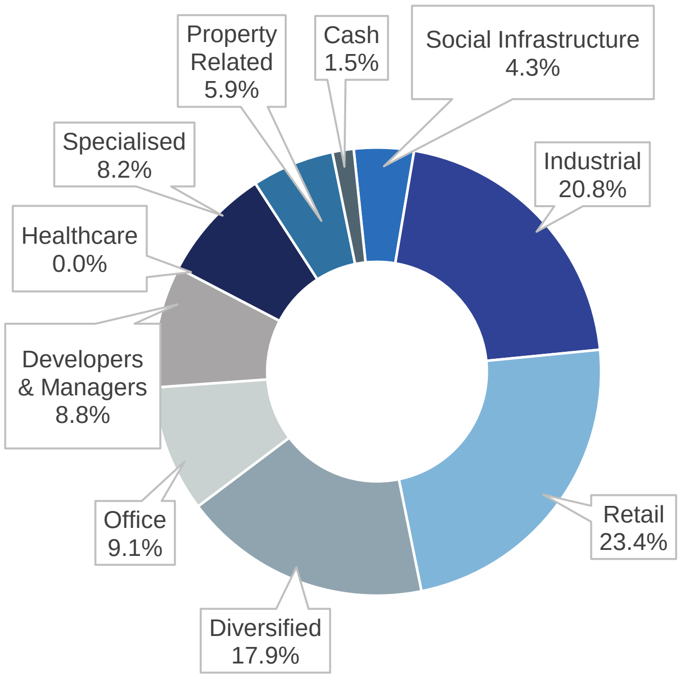
FUND ASSET ALLOCATION

As at 31 March 2019



FUND SECTOR SPLIT

As at 31 March 2019



Please note: Numbers in the graphs may not add up to 100 due to rounding.

Charter Hall Maxim Property Securities Fund

FUND PERFORMANCE REPORT

March 2019

For the month of March 2019, the Fund returned +4.17% (on an After Fee but Before Tax basis), underperforming the Fund's Benchmark (S&P/ASX 300 A-REIT Accumulation Index) return of +6.04% by 1.87%.

Positive contributions to returns during the month came from the Fund's overweight holdings in Vital Harvest (VTH +7.7%), Charter Hall Education Trust (CQE +5.4%), and Lifestyle Communities (LIC, +5.3%).

Negative contributions to returns came from zero holdings in Stockland (SGP +10.0%), Dexus (DXS +6.0%) and Charter Hall Group (CHC +16.7%).

March Quarter 2019

For the March 2019 Quarter, the Fund returned +10.77% (on an After Fee but Before Tax basis), underperforming the S&P/ASX 300 A-REIT Accumulation Index return of +14.38% by 3.61%.

Positive contributions to returns during the quarter came from the Fund's overweight holdings in Charter Hall Education Trust (CQE +18.9%), Rural Funds (RFF +7.3%) and Centuria Metropolitan REIT (CMA +7.3%).

Negative contributions to returns during the quarter came from zero weight holdings in Dexus (DXS +20.0%), Charter Hall Group (CHC +38.4%) and Stockland (SGP +9.4%).

Year to March 2019

For the 12 months to March 2019, the Fund returned +21.52% (after Fees but Before Tax), underperforming its benchmark return of +25.92% by 4.40%.

TOP 5 ACTIVE OVERWEIGHTS

By Portfolio Weight

Australian Unity Office Fund (AOF)
Vital Harvest (VTH)
Redcape Hotel Group (RDC)
APN Industria REIT (ADI)
Charter Hall Education Trust (CQE)

FUND OVERVIEW

As at 31 March 2019

Status	Open
Fund Maturity	Open Ended
Investment	Primarily A-REITs
Investment Horizon	3-5 Years
Distribution Frequency	Quarterly
Fund Inception Date	October 2005
Pricing	Daily
Buy/Sell Spread	0.25%/0.25%
Total MER	0.95% p.a. of the gross asset value of the Fund up to and including $50 million; plus 0.85% p.a. of the gross asset value of the Fund in excess of $50 million.
ARSN	116 193 563
APIR Code	COL0001AU

PLATFORMS

Asgard
Colonial First State FirstWrap
BT Panorama
BT Wrap
HUB24
Macquarie Wrap Solutions
Netwealth
IOOF Pursuit
Powerwrap
Symetry
uXchange

The table below highlights the Fund's key active positions, which have contributed most to returns over the year to March 2019.

Key Contributions to Returns: 12 Months to 31 March 2019	
Unibail Rodamco Westfield (URW)	Underweight
Charter Hall Education REIT (CQE)	Overweight
Rural Funds Group (RRF)	Overweight

At the end of March, the Fund's investments comprised 19 ASX listed securities totaling 98.5% of the portfolio, 10 of which were constituents of the S&P/ASX 300 A-REIT Index, with the remaining 9 holdings being non-index securities. The balance, 1.5% of the portfolio, was held in cash/liquid investments.

A March 2019 Quarter distribution of 1.0377 cents per Unit (paid to investors early in April 2019), took total distributions for the 12 months ended 31 March 2019 to 3.3093 cents per Unit.

OUTLOOK

It appears both the global and domestic economies are now undergoing a transition phase towards lower growth. Typically, economic shifts are coupled with greater share market volatility. In this scenario defensive sectors, such as A-REITs, outperform the general share market as investors seek relative safety from market volatility.

The recent collapse in US and domestic bonds yields seems a natural pre-curser to weaker economic growth. Given both yield curves are now inverted and imply the next move in official interest is now lower, it is likely we have already witnessed major falls in bond yields for 2019.

This means we are unlikely to see a repeat of the recent strong A-REIT outperformance, over the remainder of 2019, given A-REIT valuations already reflect lower interest rates.

Of course, one caveat to that view is the potential fallout from the upcoming Federal Election, and should Labor win, the implementation of changes to both dividend imputation and negative gearing. Changes to imputation could be very supportive for A-REIT prices, while changes to negative gearing could be negative for sentiment in the broader residential sector and for A-REITs with exposure to residential development.

We anticipate corporate activity in the A-REIT sector to continue, given an environment of cheap debt, certain individual A-REITs trading below NTA, and a low Australian dollar. We also believe the A-REIT sector will remain favourably supported by continued offshore demand for Australian property.

From a sub-sector view, we expect a continuation of the current themes of stronger office/industrial fundamentals and weaker retail/residential development fundamentals.

We believe the Fund is well placed to weather the macro-environment, given its high conviction and active strategy which allows us to over/under weight specific sectors. At present the portfolio has large underweight positions to Retail A-REITs and Diversified A-REITs, which typically have exposure to retail and residential, and a large overweight position to Specialised A-REITs which own assets such as childcare centres and farms. We believe these exposures will deliver superior performance to the broader A-REIT sector in the year ahead.

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PROPERTY
A-REITs

FINANCIAL STANDARD INVESTMENT LEADERSHIP AWARDS — PROPERTY
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PROPERTY
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Charter Hall Maxim Property Securities Fund

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