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Charter Hall

Charter Hall Maxim Property Securities Fund

Report February 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	+2.76	+7.29	+13.35	+7.42	+9.89	+10.00	+1.78
Income Return	+0.00	+0.84	+3.39	+4.01	+4.85	+6.45	+3.73
Total Return (After Fees but Before Tax) **	+2.76	+8.13	+16.74	+11.43	+14.74	+16.45	+5.51
S&P/ASX 300 A-REIT Accumulation Index	+1.80	+9.73	+18.88	+8.94	+13.20	+14.66	+4.27
Value Add	+0.97	-1.60	-2.14	+2.49	+1.54	+1.79	+1.24

*Fund inception date October 2005. **Please note the Fund's management fee was reduced on 16 May 2014. The Charter Hall Maxim Property Securities Fund's (Fund) 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 125 Equity Australia Real Estate funds as of 31 January 2019.

FE CROWN FUND RATING

MARKET REVIEW

After the strong performance of the A-REIT sector in January, following the earlier steep falls in bond yields in the US and Australia, the S&P/ASX 300 A-REIT Accumulation Index delivered a more moderate 1.8% return in February, underperforming domestic equities which delivered 6.0%.

At present, equity markets are still trying to digest the US Federal Reserve's more passive tone on monetary policy amongst a raft of conflicting economic data. During the month, the latest US GDP delivered 2.6% growth over the quarter, beating market expectations of 2.2%, while retail sales recorded their biggest drop in more than nine years.

On the domestic front, there were conflicting signals about the health of the economy, with weaker housing data offset by strong employment data.

This level of uncertainty continues to draw general equity investors towards the A-REIT sector, given its safe haven status. On a rolling 12 month basis, A-REITs have posted a total return of +18.9% versus +6.8% for the broader equities market.

Industrial A-REITs posted the highest return for the month delivering +9.3%, led by Goodman Group (GMG) +9.8%, followed by Office A-REITs with +4.5%, Specialised A-REITs with +1.5%, Diversified A-REITs with +1.0%, and Retail A-REITs with -2.0%.

REPORTING SEASON WRAP

A-REIT sector news in February was dominated by reporting season, and one of the key messages was that quality matters. Across the sector we saw numerous examples of high quality A-REITs delivering superior performance over competitors. The most notable example of this trend was the stark contrast in performance in the month of February between Stockland (SGP, -7.4%) and Mirvac (MGR, +7.1%).

During the six months ending December 2018 MGR delivered EPS growth of 25.8% on the pcp, in contrast to SGP of -6.7%. Drilling down further we note MGR delivered a 45% increase in its residential settlements, whereas SGP delivered -23%. While in their retail divisions, MGR delivered like-for-like rental growth of 2.6% versus -1.1% for SGP. The differences continue at the NTA line, where MGR increased its NTA by 5.6% versus only 0.2% for SGP. The contrasting performances of these two similar A-REITs is interesting, and in our view, highlights the strategic decisions made by management and the quality of their underlying assets. It also seems these variances are being noticed by the market, with MGR's share price outperforming SGP's by over 12% since the result. The Fund continues to have an overweight position in MGR, and does not own SGP at present.

Several other themes also emerged this reporting season, notably: retail remains weak; industrial and office remain strong; residential development has deteriorated; retirement living is being negatively impacted by the broader residential market downturn; fund managers continue to grow FUM aggressively; and changes to gearing and debt costs were benign.

We saw further evidence this reporting season to support our underweight view on retail. Across the sector, portfolio metrics for retail were weak in contrast to other sectors, with average like-for-like rental growth of only 1.3%. It's also apparent that the cap rate compression cycle is over for retail, with most retail A-REITs reporting flat or even lower portfolio revaluations, which again was in contrast to the office and industrial sectors, which continued to show evidence of cap rate compression and upward movement in property values.

It is now clear from the February results, that the residential sector is undergoing a significant cyclical downturn. Most securities with exposure to residential reported a marked decline in sentiment in the second half of CY2018 with sales rates generally down by about a third. However, stark performance in residential settlements has emerged, which reflects the differences in pre-sale levels. Those with high pre-sales, like MGR, can focus less on selling new stock and more on delivering the already pre-sold. The residential sector will remain challenging for some time, given tighter credit availability, elevated supply levels, the continued build-up of stock available for sale, fewer foreign buyers, and the impact on weaker sentiment.

While retirement living remains one of our preferred themes, given Australia's ageing population and low supply of quality seniors living, the sector is being negatively impacted by the downturn in the residential market. The weak housing market is increasing sale lead times as many retirees are taking longer to sell their existing homes, and this is having a negative impact on settlement numbers for retirement living operators. As with the other sub-sectors we are seeing quite varied performance amongst individual companies. Aveo Group (AOG) delivered a 44% drop in settlements over the December half while Lifestyle Communities (LIC), in which the Fund invests, delivered a 37% increase.

Office and industrial continued to both shine through reporting season, with A-REIT results showing average like-for-like portfolio rental growth of 4.3% and 3.9% respectively. This was in contrast to retail portfolios which delivered like-for-like rental growth of 1.3%. Vacancy rates across most major markets remain low. Unlike the retail sector, office and industrial portfolios typically recorded average cap rate compression of 14bp, over the six months to the end of December 2018, and there were a number of managers expressing the potential for further compression in the second half of FY19.

Finally, in signs that all is well within the property funds management arena, we note that annual FUM growth for the listed fund managers averaged 20% in the twelve months to December 2018. The two standouts in this space continue to be Charter Hall (CHC) and Goodman Group (GMG) who delivered 12 month EPS growth of 13.2% and 9.4% respectively to the end of December 2018. While technically both A-REITs, their underlying earnings mix and leverage to growth in FUM have given them broad investor appeal to both domestic and global investors. We expect these two companies to deliver above average sector growth in the year ahead. GMG continues to be the largest holding in the Fund.

PORTFOLIO MANAGEMENT

A number of A-REITs continue to reweight their portfolios. GPT Group (GPT) confirmed that it intends to reduce its exposure to retail from 46% to 40% and upweight industrial from 13% to 20%. It was a similar story at Stockland (SGP), with management stating they wished to increase their weighting to the workplace and logistics sector from 21% to 25-35% over the next few years while reducing their communities (residential and retirement) from 33% to between 20% and 30%.

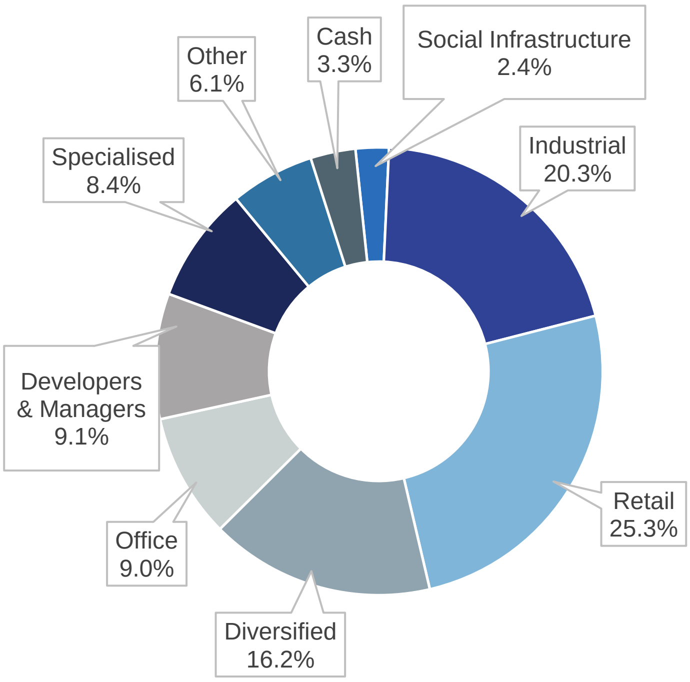
M&A & CAPITAL RAISINGS

In M&A news, ESR Real Estate (Australia) increased its holding in Property Link (PLG) from 31.5% to 88.9% during the month and extended its takeover offer period (offer price $1.20) from the 28 February 2019 to 8 March 2019. PLG has now been removed from the A-REIT index.

Viva Energy REIT (VVR) undertook a $100m equity raise at $2.32 to the fund acquisition of 8 service stations and provide headroom for future growth.

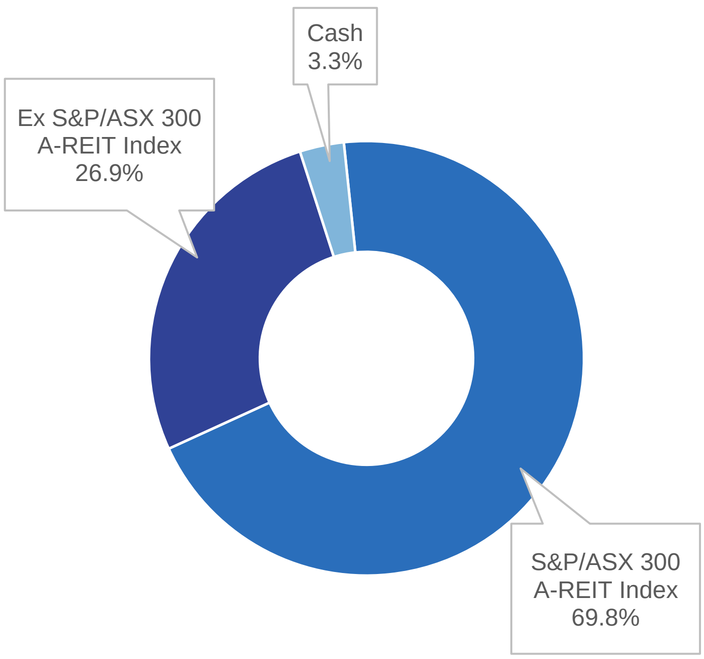
FUND ASSET ALLOCATION

As at 28 February 2019



FUND SECTOR SPLIT

As at 28 February 2019



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

SECTOR VALUATION

With the recent run-up in prices, it is becoming hard to find value in the A-REIT sector. Many A-REITs are trading on high P/E ratios and well above their NTA's at a time when future cap rate compression looks limited.

At the same time a number of A-REITs are trading close to or below their NTA, primarily due to their sector difficulties, such as Scentre Group (SCG, -13.2% to NTA) and Vicinity Centres (VCX, -16.9% to NTA).

At the end of February, the A-REIT sector was trading at a 31% premium to NTA. While the FY19 DPS yield for the sector is 5.0%, which is still well above 10-year bonds (2.1%).

FUND PERFORMANCE

Over the month, the Fund returned +2.76% (after fees, before tax), outperforming the Benchmark by 0.97%. On a rolling 12-month basis, the Fund has returned +16.74%, versus the Benchmark return of +18.88%.

Positive contributions in February came from the Fund's zero exposure to Vicinity Centres (VCX -5.6%) and underweight position in Unibail-Rodamco Westfield (URW -8.6%).

Detracting from the Fund's performance was zero exposures to Dexus (DXS +4.7%) and Charter Hall Group (CHC +6.9%).

At the end of February, the Fund's investments comprised 19 ASX listed securities comprising 96.7% 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, 3.3% of the portfolio, was held in cash/liquid investments.

OUTLOOK

It's clear the A-REIT sector has found support in recent months, as investors seek more defensive, income type securities, given global stock market volatility and falling bond yields. Additionally, we note some investors who have been underweight the sector are now taking a further look, given the potential changes to dividend imputation, should a change in Federal Government take place.

These effects could provide ongoing support for the sector. However, with many A-REITs having already experienced strong P/E re-ratings over the past few months, we are taking a more cautious approach and waiting for specific entry points on individual securities and trimming exposures where we believe prices have run ahead of fundamentals.

We continue to maintain our underweight position in the retail sector, and overweight position on certain specialised A-REITs, particularly those with exposure to social infrastructure and rural sectors.

TOP 5 ACTIVE OVERWEIGHTS

By Portfolio Weight

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

FUND OVERVIEW

As at 28 February 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

FUND MANAGER OF THE YEAR 2018
MONEY MANAGEMENT | Lonsec
WINNER
Australian Property Securities

Charter Hall Maxim
Wins Industry Leadership Award for Second Year in a Row

In February 2019, Charter Hall Maxim won the Financial Standard Fund Manager of the Year Award for Australian Listed Property.

The Financial Standard award recognises *"investment strategies that showcase all the qualities investors - whether they be advised, or self-directed - are looking for in a manager".*

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