Portfolio Performance

The global real estate market, as represented by the GPR 250 REIT World Index, delivered 6.20% in US dollar terms during Q3. Our strategy underperformed the benchmark slightly as a result of our cash position as well as allocation and selection effects in Asia Pacific. Pleasingly, we upheld our first quartile peer group ranking over the last 4, 5, 6 and 7 years.

Key contributors:

Stock selection in data centres:

Positions in CyrusOne (CONE) and Equinix (EQIX) added the most value during the quarter. Both companies continue to benefit from rising capital spending by technology companies. In addition, EQIX received its second investment grade credit rating upgrade and CONE was supported by takeover rumours.

Underweight in regional malls

The sector delivered its second consecutive negative quarterly return. Secular headwinds from online retailers persist, and year to date there have already been more U.S. store closures than in 2018. Furthermore, we see no catalysts to drive prices meaningfully higher.

Stock selection in industrial

Our two off benchmark positions paid off during the third quarter. Americold, the largest global and U.S. based REIT focussed on temperature-controlled warehouses, delivered a 14.23% vs the overall sector return of 7.23%.

Warehouses de Pauw, an Industrial landlord headquartered in Belgium delivered an 8.40% return for the quarter, outpacing the 3.50% benchmark return for the region.

Top 5 Performance Contributors		
	Security name	%
1.	CyrusOne Inc	0.71
2.	Warehouses de Pauw	0.45
3.	Equity Residential	0.41
4.	Prologis	0.38
5.	Welltower Inc	0.37

Source: Reitway Global, StatPro, Oct 2019

Key detractors:

Underweight and stock selection in Japan

This safe-haven country produced stellar returns during the quarter. Our lack of exposure to diversified REITs which delivered ~20% returns, as well as our overweight position in developers detracted from results.

Sector selection in Australia

The fund did not own any pure-play retail REITs which negatively impacted our relative performance during the quarter.

Bottom 5 Performance Contributors		
	Security name	%
1.	EPP N.V.	-0.32
2.	Goodman Group	-0.21
3.	Mitsui Fudosan Co.	-0.21
4.	Link REIT	-0.20
5.	Dexus Property Group	-0.18

Source: Reitway Global, StatPro, Oct 2019

Investment Outlook

Our positive earnings outlook for global real estate securities remains unchanged and we believe real estate stocks could continue to benefit as central banks maintain or adopt more dovish monetary policies across the globe.

While investors should be mindful of valuations in certain sectors after the strong run in share prices, we believe that the majority of global REITs still remain fairly priced considering the strength of the real estate market and the appeal of assets with defensive characteristics.

Asia

The ongoing political violence in Hong Kong continues to affect the property market. The city's ratings have also been downgraded by Fitch and the outlook changed to negative by Moody's. We see the impacts from the unrest resulting in weaker retail sales from slower tourism, slower residential demand especially for high-end homes, and slower office demand growth should corporates look for alternatives outside of the city. Financial impacts should start to emerge in the next set of financial reports, and we expect office and higher end retail to be the most negatively affected.

Japan and Singapore have remained steady performers, we like developers in these two areas based on attractive valuations and solid office demand.

Singapore residential remains resilient, and we have observed a shift of investor appetite to Japan and Singapore from Hong Kong.

Australia

Australian REIT performance slowed from Q1 and Q2's outperformance but has remained resilient even as growth concerns persist. Demand for Industrial space is robust with vacancies declining across Sydney, Melbourne and Brisbane, but office rent growth in Sydney and Melbourne has softened. Traditional office demand is slowing, and flexible workspace providers have brought increased levels of sub-lease space to market which could result in letting issues if growth continues to slow.

Germany

Fundamentals and valuation indications shown by recent corporate action continue to indicate that the German residential market remains robust. However, the introduction of a 5-year rental cap in Berlin (Mietendeckel) continues to have negative repercussions that are difficult to accurately model the impact of, for the German residential investment market. The adoption of the cap becomes law in October, and we will monitor the impact on the sector post implementation.

Poland

Poland's economic indicators remain positive, and with elections upcoming in Q4 we expect the PiS party to remain in power and continue its steady-as-she-goes economic policy.

Industrial and office development has remained robust, driven by solid demand. Investment by global property investors into Poland has increased during 2019 (led by Asian investors).

Spain

Spain continues to perform very well, although we have started to see a slight slowing in Spanish economic data. We still expect Spanish REITs to continue to perform as the fundamentals remain strong on rental growth for first tier cities.

United Kingdom

We remain very cautious on the UK, and the market during the quarter demonstrated extreme levels of volatility with wide swings. The potentials for a No-Deal Brexit; some form of deal; or even a new election remain equally as likely. We continue to believe that the headwinds in the UK will continue to impact the property sector and are especially wary of a No-Deal Brexit, or Labour election victory in a new election. We hope that Q4 will eventually bring some clarity to the Brexit saga.

United States

To be sure, at 10+ years, we are likely in the late stage of the economic cycle and while certain areas are flashing warning signs (e.g. manufacturing & an inverted yield curve) we believe the short-term risk of a recession is very modest.

Among developed countries, the U.S. still leads the pack with stable GDP, job and personal consumption growth. These factors, coupled with expectations for another Federal Reserve interest rate cut in 2019, could be tailwinds for REIT valuations.

In terms of sector positioning, we have a favourable view of all forms of rental housing due to positive demographic growth trends as well as job and wage growth. The move-out-to-buy ratio remains low relative to historical levels, due in part to home affordability. A recent Freddie Mac survey showed a record 82% of renters say renting is more affordable than owning. We also maintain a mostly favourable view of data centres, although we trimmed our weighting during Q3.

Elsewhere, we increased our exposure to sectors we expect will remain relatively insulated from an economic slowdown.

Reitway News

Business Breakfast with Garreth Eslton | 25 October 2019

Reitway Global will be hosting a fund update on the 25th of October, which will be delivered by Garreth Elston, CIO. Join us in discussing the fund and the global property sector, and an opportunity to meet the team.

Contact Olivia Teek at oliviat@reitwayglobal.com

if you would like to join us. Please RSVP by

Wednesday, 23 October 2019.

Regards,

The REITWAY team

For more information about the performance of our funds and our investment methodology, please visit our website at www.reitwayglobal.com

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