FORTIUS

FORTIUS GLOBAL VALUE PROPERTY FUND

MAY 2020

The Fortius Global Value Property Fund rose 1.5% in May.

NAV AUD $0.9526

PERFORMANCE AS AT 31 MAY 2020#

Total Return (AUD)	May 20	Since Inception* (May -17)
Fortius Global Value (Post Fees)	1.5%	5.0%
MSCI World RE (Net)	(0.7%)	16.0%
FTSE/EPRA NAREIT Global Developed (Net)	(1.5%)	5.6%
Dow Jones Global Real Estate Securities (Net)	(1.5%)	+0.7%

*Including 6 monthly distributions paid to investors
#Portfolio Performance is calculated after fees and costs, including the investment management fee and performance fee, but excludes the buy/sell spread. All returns are on a pre tax basis.

TOTAL RETURNS (LOCAL CURRENCY)

	1M	3M	1Y
Fortius Global Value Property ($AUD)	1.5%	(22.0%)	(15.0%)
US REITs (EPRA)	(0.2%)	(17.3%)	(17.3%)
UK REITs (EPRA)	0.3%	(14.2%)	(8.5%)
ASX200 A-REITs	7.0%	(21.0%)	(16.8%)
FTSE Europe REITs	1.6%	(17.0%)	(10.0%)
Emerging Markets Real Estate (MSCI)	(4.6%)	(16.0%)	(14.5%)
Singapore Real Estate EPRA)	4.8%	(6.8%)	3.5%

History must repeat itself because we pay such little attention to it in the first time.

William Forrest 'Blackie' Sherrod (1919 – 2016)

MAY 2020 UPDATE

During the month of May, all eyes were focussed on three themes/events:

1. The continued strength of the Australian Dollar;
2. The tinderbox that the US is proving to be;
3. The Chinese moving in on Hong Kong.

Our portfolio rose 1.5%, which outpaced the major real estate benchmarks, however the above themes/events did have a negative effect on several of our portfolio positions. Our weakest positions were:

1. Seritage Growth Properties – a US deep value retail/land play that is midway through its turnaround program. Warren Buffet remains a major shareholder.
2. Champion REIT – a Hong Kong office and retail REIT.
3. Link REIT – A Hong Kong retail REIT.
4. Prosperity REIT – a Hong Kong office and retail REIT.

We are obviously focussed on looking forward not backward and we did some portfolio repositioning by adding to our holdings in the following names (both of which continue to recover well):

1. Cairn Homes – a Dublin centric home and townhouse developer.
2. Aventus – an Australian specialist large format retail landlord.

While the Aussie Dollar's recovery back to 69 US cents makes it a good time for investors to allocate to international investments, there is also particularly good value on offer in Australian listed real estate post the absolute drubbing it took in March of this year (Australian listed property was down 35% in the month of March and nearly 40% in USD terms). At the very low around the 3rd week of March with the AUD at 57 cents, Australian REIT's were clearly on sale for foreign investors.

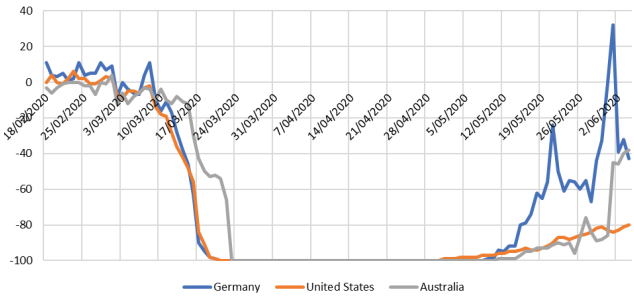
We used the weakness in Australia to add to our sole Australian position, Aventus, during the month of May. Apart from discount to valuation, which is significant, we

like Aventus for one other key reason: The emergence of a significant trend of people substituting discretionary travel budgets for redecorating and renovation expenses (and now the Federal Government looks like it will provide further assistance for these expenses).

While we certainly don't invest on speculation, the resignation of Brett Blundy (a significant shareholder and founder of Aventus) from the board of directors in May will potentially allow an easier privatisation of the listing. With Aventus trading at a significant discount to the net asset value of $2.46 per share combined with an improving outlook for its centres, privatising would certainly be a profitable event for Mr Blundy.

On dividends, while the management of many REITS and real estate companies were very quick to pull guidance and dividends upon COVID-19 setting in during March, we are quickly seeing this trend reversing and getting 'back to normal'. We continue to expect that most REITs will start to guide on their earnings and dividends and that near-term dividends will be resumed in some format. For periods further out than FY20, outcomes on earnings and payouts are still too uncertain to call. However, should countries navigate successful re openings by avoiding a serious second wave of COVID-19, then global listed real estate may follow a similar recovery path as many other battered sectors have since the March lows. Initial signs in May and early June are positive with many economies in Europe reopening without a significant spike in COVID-19 infections and economic activity continues to improve.

Restaurant Bookings (year on year growth %)



Source: Opentable: Year on year seated diners at restaurants on the OpenTable network. Includes online, phone reservations and walk-ins.

WHAT ARE WE SEEING 'ON THE GROUND'

1. Tenants are paying their rent

The most common observation we are encountering is that companies are paying their rent. Hundreds of years of property law have not been thrown out the window and it is becoming clear to all that a lease is a legal obligation and in time landlords will pursue tenants for unpaid rent the same way they would in non 'pandemic' times.

We believe that rent relief will start to be wound back pretty quickly, in all of the world's markets, which will obviously be a big positive for REIT/property stock prices.

2. The Mood of the Banker is Good

On the debt side of the ledger it appears that in general banks are being very accommodative to landlords. Banks are working out ways they can help their borrowers, as opposed to post the GFC when they were working out how quickly they could put owners in a default position. Even with disruption to cashflows, with reference rates where they are, commercial property loans are very profitable for banks all over the world.

Banks are still allowing owners to draw down on facilities for capital expenditure and as such we don't foresee swathes of uncompleted projects the world over, as was the case post the GFC.

3. Foot Traffic is Recovering Quickly

Ironically there is an aspect of COVID-19 that could be good for shopping centres. People have missed the process of physical shopping, whether that be shopping with or without purpose, and being cooped up at home has had a mental toll on most people. For many a visitation to the local or regional shopping centre can do much to reduce this mental stress (again somewhat ironic as often people complained about the stress of the shopping centre experience).

4. Even Die-Hard Retail Property Loyalists are Wavering

We think there is going to be a lot of action in the retail property sector over the next three years. There will be owners who essentially 'give up' on the sector and there will be opportunists who think there are dollars to be made from despair and exhaustion.

Obviously the most high-profile deserters of retail property were the Lowy Family, however this week we have seen Vicinity raise $1.4bn in equity, primarily to reduce gearing on the portfolio. Vicinity only have A$150m of debt maturities prior to FY23, so it's not a liquidity squeeze, however what is particularly interesting is the fact that the Gandel Group, the largest shareholder with a 9.7% stake in the company, did not subscribe to their proportional ownership in the company.

TOP 5 HOLDINGS

- Atrium European Real Estate (Poland)
- Gaming And Leisure Properties (United States)
- Keppel DC Reit (Singapore)
- Physicians Realty Trust (United States)
- Prologis Property Mexico Sa (Mexico)

BONDS & CURRENCY

	MAY 20	1M Prior	3M Prior	1Y Prior
Australian Dollar Spot	0.667	0.656	0.652	0.692
Eur-Aud X-Rate	1.667	1.658	1.692	1.612
Gbp-Aud X-Rate	1.851	1.902	1.967	1.827
10Y US Treasury	0.65%	0.63%	1.15%	2.27%
10Y Aust Govt Bond	0.89%	0.92%	0.82%	1.53%

WHERE ARE WE HUNTING

We are directing much of our research efforts to the following two regions at present.

1. United Kingdom

We believe that we are past peak pessimism in the UK. We are now seeing improving economic momentum in the UK and this is leading to foreigners buying listed real estate in the United Kingdom. REITs are now trading on an average of approximately 0.6-0.7X book value, which we think offers a strong risk reward profile.

2. Hong Kong

As value investors you have to scratch the surface hardest when negative events rear their ugly heads. It is one's ability to be objective when the noise is loudest that sets up an investment for medium to long term success.

The first reaction to China taking an accelerated approach to bringing Hong Kong's governance into line with the rest of China is almost unquestionably going to be negative. However, Western firms have been doing business throughout the rest of China for many decades. At the end of the day real estate assets are only as valuable as the rental flows that they generate.

It is the Chinese mainland firms who have been the most significant contributors to net absorption in the Hong Kong office market for many years. This will continue under new Hong Kong rules. We also do not think that Western firms are suddenly about to abandon their operations on the former British outpost, just as they won't abandon their operations in Beijing or Shanghai.

REITs and property companies in Hong Kong are now pricing in 40% decline in asset values. We think this is a very unlikely eventuality as we felt with UK equity valuations in 2016 post the original Brexit vote.

HSI Index (HK major index)
long term performance through major crises vs book value

Source: Bloomberg

Please contact Nicholas Sproats or Catherine Farrell should you have enquiries about the investing process at investors@fortius.com.au or +61 2 9236 4700

Ragavan Sivanesarajah - CFA
E rsivanesarajah@fortius.com.au
M +65 8389 7048

Ragavan has over 20 years experience in investment analysis, execution and portfolio management. Prior to Fortius, Ragavan held senior roles with AMP Capital, Maple-Brown-Abbott and BT Funds Management.

Ragavan completed a Master in Business Administration from Macquarie Graduate School of Management during which time he undertook a research paper on the persistence of value in real estate equities.

David Curran - CFA
E dcurran@fortius.com.au
M +65 9185 2950

David has 25 years experience in investment analysis, execution, private equity and portfolio management. Prior to Fortius, David held senior roles with Spinnaker Capital Group, Alliance Capital Management and BT Funds Management.

After 10 years with BT Funds Management in Australia, David joined Alliance Capital in Singapore in 2003, where he was responsible for managing a global equity fund.

Sydney
Level 4
88 Phillip Street
Sydney NSW 2000

Singapore
Level 10, #10-01
1 George Street
Singapore 049145