

Australian and Global Listed Property Sector Wrap-Up



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Executive Summary



Mark Laidlaw
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As part of its 2014 review cycle, Morningstar covered 27 distinct strategies across the Australian and global listed property universe (18 Australian and nine global). This equated to about 83% of the universe by assets for Australian listed property and 80% for global. This sector wrap-up provides an overview of our key observations and a summary of our Morningstar Analyst Ratings™.

In the first section, we look at the argument for active management when it comes to investing in A-REITs. Historically the preference has been for passive management given the structure of the local listed property sector. Following the GFC, the sector has gone a long way to reforming itself and this has coincided with active managers improving their game. Actively managed strategies tend to be directed by small, focused and experienced investment teams. Empirical data supports the suggestion that active managers in the space are becoming more effective. We examine whether this is the start of a long-term trend or more cyclical in nature and how this affects our preferred A-REIT strategies.

While investors continue to shun the sector for a variety of reasons, there has been a heightened level of activity in REITs as an asset class in the past few years. We examine some of the main reasons for this. Institutional investors with long-term time horizons are attracted to perceived stable income from the sector. This focus has shifted from direct to listed offerings as it becomes ever harder to find attractive assets. We look at factors driving the bumper activity in initial public offerings (IPO) and mergers and acquisitions.

We then look at the major potential headwind for the sector – how REITs will fare in a rising rate environment. Interest rates remain at historical lows and the future path remains uncertain. We look at what might influence the direction of rates and how sensitive REITs are to interest rate movements. We examine how the assets fared relative to equities when markets were caught by the unexpected announcement of QE tapering. We also look at what REITs offer in a diversified portfolio and discuss the weighting recommend by Morningstar's Expert Asset Allocation Panel.

We conclude with our usual overview of the rationale for the changes to our Morningstar Analyst Ratings and a list of those we designated Morningstar Medallists. ■■

Upgrades, Downgrades and New Coverage



Mark Laidlaw
Senior Research Analyst

Over the course of Morningstar's 2014 review of Australian and global listed property we upgraded two strategies and downgraded one. Additionally we initiated coverage on one global listed property strategy and ceased coverage on five others. In terms of Australian listed property, no new strategies were covered, while we ceased coverage on four strategies. In the global property space, **AMP Capital Global Property Securities** 12353 had the unusual distinction of being upgraded then downgraded within a couple of months. Initially upgraded to Silver from Bronze, the strategy was subsequently downgraded back to Bronze following the departure of senior staff in April 2014. The

other strategy to benefit from an upgrade was **Vanguard Australian Property ETF VAP**, which was upgraded to the highest ratings designation of Highly Recommended.

In terms of new coverage, **SPDR Dow Jones Global Real Estate ETF DJRE** received an Investment Grade designation.

A full summary of the changes to ratings is detailed below.

Full copies of our research reports, as always, are available in Morningstar® Advisor Research Centre and Morningstar® Direct™. [III](#)

Upgrades – 2014 Australian and Global Listed Property Sector Review

Fund	Ticker	Old Rating	New Rating
AMP Capital Global Property Securities	12353	Bronze	Silver
Vanguard Australian Prop Secs Index ETF	VAP	Recommended	Highly Recommended

Source: Morningstar Direct™

Downgrades – 2014 Australian and Global Listed Property Sector Review

Fund	Ticker	Old Rating	New Rating
AMP Capital Global Property Securities	12353	Silver	Bronze

Source: Morningstar Direct™

New Coverage – 2014 Australian and Global Listed Property Sector Review

Fund	Ticker	Rating
SPDR Dow Jones Global Real Estate ETF	DJRE	Investment Grade

Source: Morningstar Direct™

Dropped Coverage – 2014 Australian and Global Listed Property Sector Review

Fund	Ticker	Previous Rating
Legg Mason Australian Listed Property	5466	Not Ratable
OnePath Property Securities	3202	Neutral
Perennial Australian Listed Property	5669	Neutral
UBS Property Securities	2953	Neutral
BT Global Property	12549	Neutral
EQT SG Hiscock LaSalle Global Property	11241	Neutral
Invesco Global Property Securities	13201	Neutral
Ironbark RREEF Global (ex-Aus) Property	12113	Neutral
Zurich Investments Global Property Securities	15891	Under Review

Source: Morningstar Direct™

Active Management Makes a Comeback in A-REITs



Kathryn Young
Senior Research Analyst

Passive strategies have long been a compelling way to access the Australian listed property sector. In fact, index-tracking funds were our only Highly Recommended or Gold-rated strategies from 2009-2013 because this sector's inherent concentration makes it difficult for active managers to differentiate their portfolios from the benchmark (the S&P/ASX 200 A-REIT Accumulation Index). Indeed, average active share is far lower in this sector than most others. The managers that do differentiate often take on meaningful risks in direct property or small-cap stocks, or dilute the purity of the portfolio by going into global REITs or infrastructure. On the whole, active strategies often have failed to outpace the index, making their higher fees seem like an unnecessary expenditure.

Active managers haven't ceded the sector to their passive rivals though. On the contrary, they have improved their game in recent years. The sector went through a period of consolidation after the GFC demolished many shops' performance records, sparking a wave of parent company and personnel instability. Some shops shuttered their A-REIT operations altogether, including Goldman Sachs and Macquarie, while other strategies were forced to find new homes. Credit Suisse and ING abandoned their Australian investment businesses, sending the property team that successively managed at both of those shops into the arms of UBS. Antares was sold by UK insurer Aviva to MLC. More recently, AMP Capital and Brookfield ended their joint venture, causing significant changes to the former's property team, and Stephen Hayes took a few long-standing members of his team back to Colonial First State after a six-year stint at Perennial.

This upheaval made it all the more difficult to have confidence in active managers but the scene has been much calmer of late. Most of the most recent staff upheavals have been offshore, particularly in Asia and Europe as teams look to strengthen or introduce capability here. Plus, that period of consolidation reduced the number of fund providers in the sector which, combined with muted inflows, gives reason to believe there may be fewer opportunities in the foreseeable future for experienced staffers to jump ship.

Increased stability makes it easier to appreciate and benefit from the focus and experience that characterise many teams in the sector, which seems to attract specialists with a desire to work in property specifically. Perhaps for that reason, fund providers typically don't use this sector as a training

ground for people expected to become diversified portfolio managers, as they often do with other sector funds. As a result, actively managed strategies in this sector tend to be directed by small but focused and very experienced teams. The average level of experience across the active strategies we cover is nearly 16 years. Few, if any, other sectors could rival that. Granted, such tenure in a particular sector can engender complacency, rendering analysts and managers less able or willing to anticipate changes to the environment, but the extreme outcomes of the GFC – including bankrupt operations and shortened careers – should have taught some lasting lessons.

A Little Help From the Sector

The sector itself has undergone changes that are creating tailwinds for active managers. As we've highlighted in past articles, including the 2012 Sector Wrap-Up and 2014 Talking Points: *Put Property Back On Your List*, this sector has cleaned up its act in the years since the GFC. Leverage generally has come down to acceptable levels, payout ratios have been at sustainable levels and the percentage of revenue derived from offshore and development-related activity has decreased meaningfully. This relative purity bolsters the number of investable options in the sector.

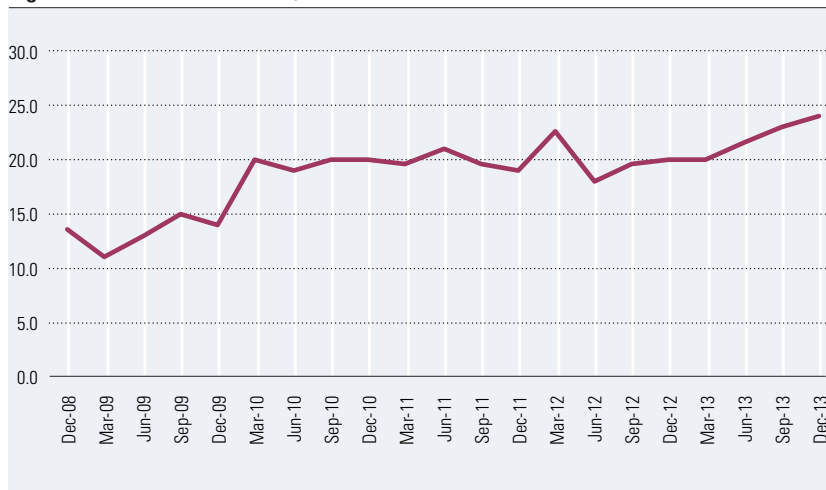
A string of IPOs have also increased the depth of the sector, taking the number of REITs in the S&P/ASX 300 A-REIT index from 20 to 28. As the upcoming section, "Plenty of Life in REITs" explains, these new issues have added constituents to the benchmark and broadened the sub-sector variety available to investors. While the sector remains heavily concentrated, this does at least open up new opportunities for active managers to make bets against the benchmark.

Corporate activity is further changing the face of the sector, creating opportunities for fundamental research and analysis to have a positive impact. In 2013, Dexu and GPT engaged in a bidding war to acquire Commonwealth Property Office and Westfield announced plans to merge portions of the Westfield Group entity with Westfield Retail Trust. The latter development eventually could lead Westfield Group to delist from the ASX. Skilled managers can identify the winners and losers in such situations, thereby garnering outperformance for their investors.

Empirical Evidence

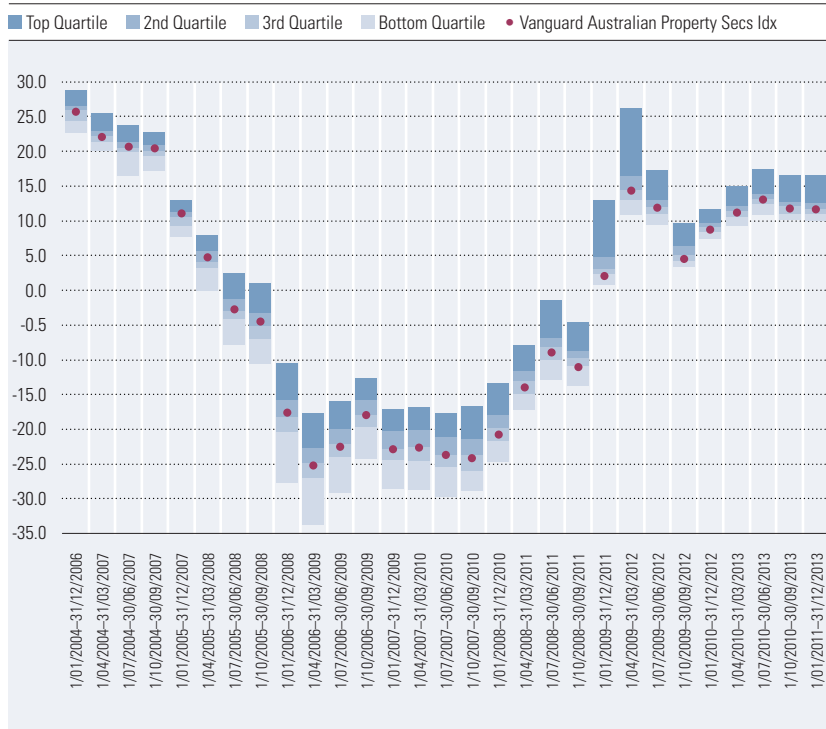
Available data seems to support the assertion that actively managed funds should be growing more effective. The

Figure 1: Median Active Share, December 2008 – December 2013



Source: Morningstar Direct™

Figure 2: Passive Relative to Active; Rolling 3-yr Periods, May 2004 – April 2014



Source: Morningstar Direct™

funds we cover have become more active, on average, over the past few years. Active share measures the percentage of a portfolio that is not in direct overlap with the relevant benchmark. It's increased by investing in off-benchmark stocks, excluding stocks that are in the benchmark, or by holding benchmark constituents in different weights. Figure 1 shows that the median active share of the actively managed funds that we currently cover (excluding two with high allocations to unlisted property) has increased since late 2008.

Of course, some managers we cover have long been highly active relative to the rest of the sector, including Cromwell Phoenix and APN. But some of the more benchmark-relative shops have added conviction to their portfolios, including AMP Capital, BT and Ironbark RREEF.

Higher active share can be a double-edged sword. Differentiation from the benchmark is necessary to outperform it but bets against the index can also go wrong. There is some indication, however, that active funds have been using higher active share to the benefit of investors. Figure 2 plots the performance of **Vanguard Property Securities Index 4744** relative to the other actively managed wholesale funds in this category over rolling three-year periods (with a three-month step). It shows that the passive fund typically beats about half of the actively managed strategies. However, the active funds have been better at distinguishing their performance to the upside than they were in the past, when downside deviation was equally likely and sometimes larger in magnitude.

It May be Cyclical

Recent upgrades of strategies we cover reflect these positive improvements across the sector. For example, in 2013 we upgraded **Zurich Renaissance Australian Property Securities 5396** to Silver from Bronze and **BT Property Investment 2727** to Gold from Silver. In both cases, the upgrades were meant to recognise managers with decades of experience, unique insights and a track record of serving unitholders well. We think these teams can stand the test of time.

We are less sure, however, that improvements across the broader sector will last long enough to warrant a change to our view that passive strategies deserve our highest recommendation. The natural boom and bust cycle that nearly all sectors experience suggests we may be in that period of stability that follows periods of consolidation. After a bust and subsequent consolidation, everyone behaves for a period of time. Eventually, though, the relevant players start taking more risk and the cycle starts again. In this case, that

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would mean the underlying REITs start seeking growth in riskier areas, such as development, and fund managers start picking stocks with more growth potential, either unaware or unconcerned about the additional risks. This would generate more dispersion in the total returns posted by the underlying stocks and portfolio managers that took on the wrong risks would again lag passive funds.

Figure 2 supports that idea. In the early part of the chart, for periods spanning early 2004 to early 2007, the dispersion of returns from the best performing strategy to the worst is fairly narrow. That dispersion grows considerably as the chart moves into the time around the GFC. It narrows again in more recent times. That pattern suggests we may be in the relatively stable part of a broader cycle.

Furthermore, the sector's undeniable concentration means most strategies offer similar exposure. It also means the best active managers typically outperform by just a few percentage points over the long term. As a result, there is good reason to choose a relatively cheap strategy that alleviates the need to monitor an active manager and his or her reaction to the cycle's progression. So while we are increasingly inclined to rate our favourite active managers well, passive strategies, including **Vanguard Property Securities Index 4744**, **Vanguard Australian Property Securities Index ETF VAP** and **BlackRock Indexed Australian Listed Property 9166**, earn our highest recommendation. ■■

Plenty of Life in REITs



Mark Laidlaw
Senior Research Analyst

We've outlined the reasons previously that the REIT sector both locally and offshore has failed to resonate with investors despite moving back to its traditional roots offering stable yields with the potential for some capital upside. Notwithstanding this, the REIT sector has been a hub of activity in calendar year 2013 and this trend has continued in 2014. One of the reasons for the continued appeal outside the sphere of Australian retail investors is record low interest rates across most (if not all) of the developed world. Globally, REITs offer dividend yield of 3.8%, in Australia it is even higher at 5.8%. This still compares very favourably with what is available from government bonds. REIT yields also look favourable when compared with wider equities in most global markets, although some commentators expect this to narrow over the short to medium term as rates start

to rise from record lows. As a result, there has been a lot of activity in the sector by major global players such as sovereign wealth funds and pension funds. The yield and perceived stability of underlying cash flow (rental income) make property an attractive asset class for investors with longer time horizons. Typically the preference for these players has been to acquire assets directly and focus on unlisted property. One problem encountered by SWFs and large institutional players is that as cap rates were starting to get squeezed, particularly for higher-quality properties, it has become more difficult to find attractive assets in the direct (unlisted) sphere, therefore attention has been focused more and more on the listed property market. One such example was the taking out in Australia of **Commonwealth Property Office** CPA.ASX by a Canadian pension fund CPBIB in conjunction with **Dexus** DXS.ASX.

Table 1: IPO Activity 2013

Name	Date	Country
GDI Property Group	16/12/2013	Australia
Hotel Property Investments	06/12/2013	Australia
IDR	03/12/2013	Australia
National Storage	19/12/2013	Australia
Australian Industrial REIT	17/10/2013	Australia
Arena REIT	07/06/2013	Australia
Golden Wheel Tiandi Holdings	16/01/2013	China
Logan Property Holdings Company Limited	13/12/2013	China
Langham Hospitality Investments	23/05/2013	Hong Kong
AEON REIT Investment Corporation	11/11/2013	Japan
Nippon Prologis REIT, Inc.	04/02/2013	Japan
Nomura Real Estate Master Fund, Inc.	03/06/2013	Japan
LEG Immobilien AG	31/01/2013	Germany
Deutsche Annington Immobilien SE	10/07/2013	Germany
Hispania Activos Inmobiliarios, S.A.	12/03/2014	Spain
Hibernia REIT Plc	11/12/2013	Ireland
Kennedy Wilson Europe Real Estate Plc	25/02/2014	United Kingdom
GCP Student Living Plc	15/05/2013	United Kingdom
Custodian REIT Plc	26/03/2014	United Kingdom
Hilton Worldwide Holdings Inc.	11/12/2013	USA
Empire State Realty Trust, Inc.	01/10/2013	USA
Brixmor Property Group Inc.	29/10/2013	USA
American Homes 4 Rent	31/07/2013	USA
Extended Stay America, Inc.	12/11/2013	USA
Choice Properties Real Estate Investment Trust	26/06/2013	Canada
CT Real Estate Investment Trust	10/10/2013	Canada
Milestone Apartments Real Estate Investment Trust	25/01/2013	Canada
Agellan Commercial Real Estate Investment Trust	17/01/2013	Canada

Source: AMP Capital

Within the sector, it has been a bumper time for initial public offerings (IPOs), equity issuance, and mergers and acquisitions. Generally improving fundamentals resulted in a large spike in IPO activity in 2013-14. This has been across most regions and the final quarter of 2013 was a particularly busy period, particularly for the United States and Australia. Table 1 shows the larger IPOs across regions in 2013.

From an Australian perspective, the addition of new names to a shrinking investible universe was seen by many as a sign of faith for the sector. Exposure to the industrial sub-sector increased with the new companies that came to market towards the end of 2013, which was welcomed by fund managers. Furthermore, **National Storage** NSR.ASX provided exposure to the self-storage part of the market for the first time, widening the available investment choices. This sector has been one of the strongest performers in recent years in markets such as the United States and the United Kingdom. From the IPO activity offshore, one aspect that has stood out has been the re-emergence of private equity using the markets as an exit strategy. Australian investors in both REITs and equities as a whole have tended to be sceptical about private equity. There have been numerous examples of companies brought to market that subsequently slump when it becomes obvious that the pre-prospectus forecasts were too optimistic. Two of the largest IPOs in the US (Brixmor and Hilton Hotels) were the result of Blackstone returning them to public ownership. In both cases, the private equity giant remains the largest shareholder, giving some comfort to investors. Beyond IPO activity, REIT managers across the globe have

been taking the opportunity to tap markets with large-scale equity issuance. Management has been using this equity issuance typically to either fund growth through mergers and acquisitions or to clean up corporate structures – CapitalLand in Singapore and **Challenger Diversified Property Group** CDI.ASX are two examples of companies that have cleaned up their corporate structures.

It's reasonable to expect M&As and IPOs to continue both locally and globally. US retailers Simon Property Group and Vornado Realty Trust have both signalled their intention to spin out part of their asset bases. In Australia, **Stockland** SGP.ASX has announced a takeover for the remainder of **Australand** ALZ.ASX and investors are waiting to see if **Westfield Group** WDC.ASX will be successful in its proposed demerger with **Westfield Retail Trust** WRT.ASX.

Theoretically this should bode well for the sector's prospects over the medium to long term. Arguments can

be made as to whether valuations are stretched in a particular region but the fundamentals look favourable. The sector continues to offer an attractive way to get a reasonable yield, with the prospect of growth to go along with that. Locally, the A-REIT sector is increasing and also expanding into areas (such as self-storage) where previously there was no exposure. Despite some potential short-term headwinds, REITs continue to make a case for inclusion at the portfolio level. By and large, fundamentals remain solid and dividend streams look to be well supported with scope to increase. Added to this the increase in IPO and corporate activity adds breadth to the sector, which in turn should create more opportunities for active management (as was outlined in the previous section of this wrap). One factor that may affect the level of IPO and corporate activity in the REIT sector is the spectre of interest rates and what impact it is likely to have on listed property. This is examined in the next section. ■■■

How REITs Will Fare in a Rising Rate Environment



Alex Prineas
Research Analyst

REIT investors face a conundrum. High dividend yields and modest growth prospects make REITs attractive if interest rates remain low, but if rates rapidly recover to historical norms, REITs may suffer.

Interest rate fears for the property sector rest on three assumptions:

- ▶ Global interest rates are low, yet the global economy has shown signs of improvement, setting the scene for substantial rate increases
- ▶ REITs are yield sensitive so when rates rise, REITs will suffer
- ▶ REIT share prices have run up to high levels, leaving them vulnerable.

But none of these are a foregone conclusion. Investors should be concerned about interest rate risk but our outlook still leaves room for REITs in a portfolio. Let's examine each assumption in turn.

Interest Rates Are Low But There's No Guarantee They'll Rise Fast

The future path of interest rates is by no means certain. Global rates may well rise but they may actually fall further or stay low for an extended period. At the same time as a cyclical economic recovery puts upward pressure on rates, structural factors such as debt and demographics put downward pressure on rates.

Global debt burdens remain heavy. The Bank for International Settlements in its March 2014 quarterly review estimated that global debt markets have grown to \$100 trillion in mid-2013 from \$70 trillion in mid-2007 – an increase of more than 40% from debt levels that were already considered high (after all, 2007 debt levels preceded the GFC). Meanwhile, demographic studies show much of the world's population is ageing. The World Health Organisation forecast in 2012 that from 2000 to 2050 the world's population of over-60s will double from about 11% to 22%. The issue is pronounced in developed markets (where REIT markets are focused) but major emerging markets such as Russia and China also face demographic challenges.

These debt and demographic headwinds won't dissipate soon, which may mean rates rise but not as far nor fast as expected. It is even possible that rates will remain low for an extended period or even fall further.

How Sensitive are REITs to Rate Moves?

Efficient equity markets should discount future interest rate expectations so the risk of rate rises should already be reflected in REIT share prices. We do not argue that the market is entirely efficient but with central banks and interest rates under extreme scrutiny, it would be naive to assume this risk is being ignored.

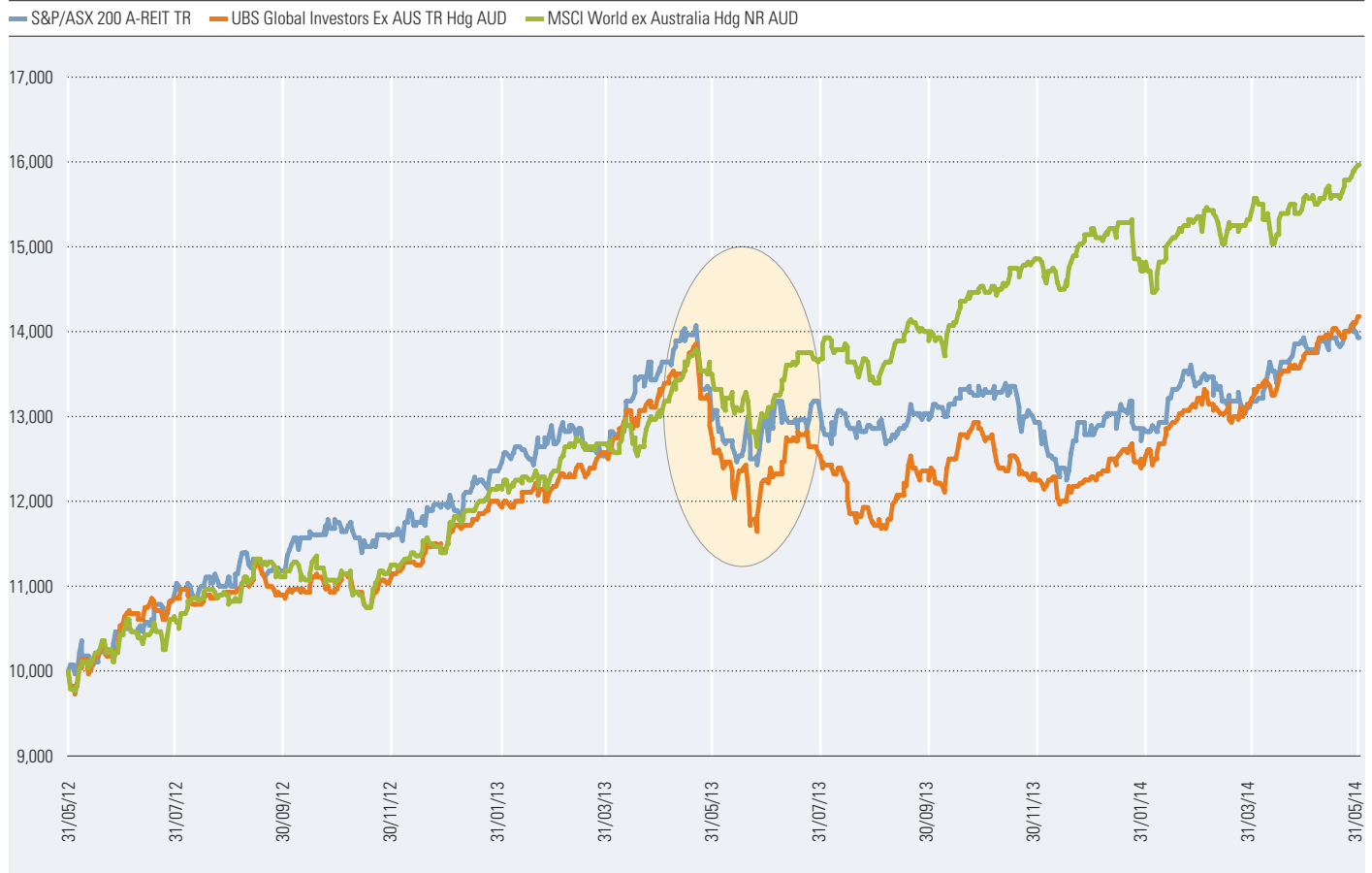
Nevertheless, markets do get things wrong so let's consider the possibility of unexpected rate rises.

In the short term, there's no doubt that REITs are sensitive to interest rate movements. REIT prices wax and wane based on the smallest utterings of central bankers. When there is an unexpected movement in interest rates, REIT prices nearly always respond the same day.

But as long-term investors, we are not that interested in daily stock price movements. Long-term earnings are more important, driven by micro factors (REIT management and strategy) and macro factors (economic growth/inflation).

In our February 2014 Talking Points: Put Property Back on Your List <http://arc2.morningstar.com.au/Document/Preview/11867> we examined REIT micro-factors and found that since 2008, A-REITs have improved their management game, offering more reasonable payout ratios, lower gearing and selling non-core assets. G-REITs have also been restrained since the GFC, with management teams usually demanding a higher hurdle of pre-lettings before committing to developments.

And what about macro factors such as growth and inflation? REITs are not bonds. Bonds pay fixed coupons with little or no uplift potential, making them highly interest rate sensitive. But REITs offer an element of earnings growth. Many property leases tie rental payments to CPI and even without contractual links, the forces of supply and demand dictate that rents bear some relationship to general price levels in the economy. Furthermore, REITs are not just passive rent collectors – many REITs have business activities attached, such as funds management and property development, offering further correlation to economic activity and the ability for management to generate profits (or losses) beyond movements in property prices. So to characterise REITs as an interest rate play is correct in the short run but economic growth is an important driver in the long term.

Figure 3: Relative Asset Class Performance – A-REITs, G-REITs & Global Equities

Source: Morningstar Direct™

Are REITs Expensive?

This is the issue that concerns us most. Whatever the fundamentals, overpaying for an asset undermines long-term returns. After a strong run-up in REIT share prices, there is no doubt REITs are more expensive in absolute terms than they were a few years ago. All major asset classes have risen strongly in the past few years, with ongoing monetary stimulus from central banks, politicians determined to prop up growth and a cyclical recovery in some economies. So the market may be acting rationally in a relative sense. REIT valuation metrics are not in the stratosphere but are in more expensive territory than they were.

Ibbotson (a Morningstar company) estimates payout ratios edged up to 85% in March 2014 from 80% in March 2011 and some REITs have increased their gearing levels. So REITs are paying out more of their earnings and have higher gearing risk, yet because of share price increases, they are actually paying lower yields. A-REIT dividend yields had compressed to about the 5.5% mark by April 2014. NAB forecasts the yield on 10-year Commonwealth bonds will be 4.2% by the end of 2014 (Westpac forecasts 4.1%), leaving only a small risk premium for this growth asset class.

Investors last year got a taste of what unexpected rate rises can do to REITs. The Fed surprised markets in May 2013 by flagging a tapering in its quantitative easing (QE) program. A-REITs and G-REITs duly suffered. Figure 3 shows the S&P/ASX 200 A-REITs index fell more than 10% in a month, while the UBS Global Investors ex-Australia (A\$ hedged) index fell almost 15% (circled). Broader global equity markets also suffered, though not quite as much (we've shown hedged global equity returns here to strip out the effect of currency moves – Australian investors typically hedge their G-REIT exposure but not their global equity exposure).

Some commentators pointed to that fall as evidence that further rate rises could hammer REIT share prices. We would not be surprised if REITs suffered another setback in the event of a renewed interest rate shock. In fact, in the aftermath of the Fed's announcement all major asset classes suffered setbacks – bonds, equities, gold, industrial commodities and REITs. Even long-held relationships such as the inverse correlation between bonds and equities did not stand. But as we mentioned earlier, the immediate days or months mean little for a long-term investor. The Fed eventually followed through with tapering and interest

rates rose, giving further ammunition to the doomsayers. Yet defying these headwinds, REITs had recovered almost all their losses by May 2014.

The Outcome – REITs Occupy a Long-Term Allocation in Morningstar’s Model Portfolios

Morningstar’s Model Portfolios maintain their strategic weighting to REITs. For example, our growth portfolio has a strategic weighting of 8% to A-REITs and 3% to G-REITs.

Property plays a long-term, strategic role in a broader portfolio. It is a more defensive source of income than equities, while offering more growth potential than bonds. Listed property can be volatile, but it is a different asset class with different performance drivers from bonds and equities. Including listed property in a portfolio can add to diversification, thereby reducing overall portfolio volatility, and also acts a source of income given the high dividend yield on offer from REITs. These factors guide our strategic weightings to REITs.

On a tactical note, our Expert Asset Allocation Panel suggests an underweight to REITs at the moment. We’ve

made the case in this article that pain from rate rises should not be viewed as a foregone conclusion. Nevertheless, it is a risk and with the asset class on the expensive side, our committee believes it’s prudent to take an underweight stance on REITs.

In summary

Interest rate fears abound but rate rises are not guaranteed and rates could actually stagnate or even fall further due to debt and demographics. Even if rates rise, markets should have priced in this risk to a degree. If rates rise rapidly, that may be associated with stronger growth and inflation to which REITs can provide some protection through rising rents and property prices. REITs add diversification to your portfolio, so they should continue to play a role (REITs also pay high dividends for investors who demand income). For these reasons, a long-term strategic weighting to REITs remains justified. However, given REIT valuations are on the high side, our asset allocation committee suggests an underweight position at this time. ■■■

Changes to Morningstar Analyst Ratings



Mark Laidlaw
Senior Research Analyst

We take a medium- to long-term outlook when determining qualitative recommendations. Our views about the merits of investment strategies move over time on the basis of manager-specific factors such as investment team composition, changes to investment processes and our degree of relative conviction.

In this review, we upgraded our Morningstar Analyst Ratings™ for two strategies and also initiated coverage of one new strategy. There was one downgrade.

Upgrades

AMP Capital Global Property Securities 12353 was upgraded to Silver from Bronze. We were impressed by the continued improvements in the team and process since Matt Hoult took control in early 2012. Changes to the process and the introduction of formal secondary coverage for team members gave the strategy a more robust feel in a relatively short time.

Vanguard Australian Property ETF VAP to Highly Recommended from Recommended. In a sector where passive investing makes sense, we were already confident about Vanguard's ability to manage index funds and ETFs. VAP's growing assets and trading volumes add to an already large pool of assets in Vanguard's equivalent managed fund, adding to VAP's scale and appeal.

Downgrades

AMP Capital Global Property Securities 12353 was downgraded to Bronze from Silver. Having just been upgraded a month previously, the strategy was downgraded on the rapid departure of two staff from the team's London office in April 2014. This is the first main challenge team head Matt Hoult has faced since joining AMP Capital in early 2012. Importantly the process hasn't changed and Hoult's continued presence provides a measure of comfort and why we are comfortable for the strategy to remain as a Morningstar Medallist.

New Coverage

We initiated coverage of **SPDR Dow Jones Global Real Estate ETF DJRE** at Investment Grade. This is the first global listed property ETF in Australia and we believe SPDR can manage it effectively. The firm has run ETFs in Australia longer than any other provider and managed a US ETF to the same benchmark since 2008. We expect DJRE's appeal to grow as it increases assets from its early base of less than A\$10 million.

Morningstar Medallists

Investment strategies with Morningstar Analyst Ratings™ of Gold, Silver, or Bronze carry the tag Morningstar Medallists. These are the strategies that in our opinion truly stand out and share common traits, including a capable and stable team, robust processes and an ability to deliver in a variety of market conditions.

We designated 11 of the 18 assessed Australian listed property strategies as Morningstar Medallists. Four attained Gold, four were Silver and three were rated Bronze. Of the nine global listed property strategies assessed, four were designated as Morningstar Medallists. One attained Gold, one Silver and two Bronze. ■■

Table 2: Morningstar Medallists

Australian

Ticker	Name	Morningstar Analyst Rating
9166	BlackRock Indexed Aus Listed Property	Gold
2727	BT Property Investment WS	Gold
4744	Vanguard Australian Property Secs Idx	Gold
VAP	Vanguard Australian Property Secs Index ETF	Highly Recommended
7050	Antares Prof Listed Property	Silver
17006	APN AREIT	Silver
16260	Cromwell Phoenix Property Securities	Silver
5396	Zurich Investments Aus Listed Property	Silver
4678	AMP Capital Listed Property Trusts	Bronze
11242	EQT SGH Wholesale Property Income	Bronze
4778	MLC Wholesale Property Securities	Bronze

Global

Ticker	Name	Morningstar Analyst Rating
14291	UBS Clarion Global Property Securities	Gold
16747	Resolution Capital Global Property Securities	Silver
12353	AMP Capital Global Property Securities	Bronze
13427	Vanguard Int Property Secs Idx (Hedged)	Bronze

Source: Morningstar Direct™

Appendix 1: Basic Data

Australian Listed Property

Name	Ticker	Inception Date	Morningstar Analyst Rating	Global Fund Report Analysis Date	Fund Size Base Currency	Fund Size Date	Indirect Cost Ratio (ICR)
AMP Capital Listed Property Trusts A	4736	9/12/96	Bronze	1/04/14	113,375,198	31/03/14	0.97
Antares Prof Listed Property	7050	28/02/94	Silver	14/03/14	102,194,902	31/03/14	0.72
APN AREIT	17006	19/01/09	Silver	13/05/14	576,337,688	30/04/14	0.85
APN Property for Income	5072	7/07/98	Neutral	13/05/14	231,237,776	30/04/14	1.05
APN Property for Income No. 2	12927	20/05/05	Neutral	13/05/14	98,492,594	30/04/14	1.08
BlackRock Indexed Aus Listed Property	9166	16/07/01	Gold	15/04/14	313,756,108	30/04/14	0.20
BT Property Investment WS	2727	16/04/93	Gold	13/05/14	341,329,255	30/04/14	0.65
CFS Wholesale Property Securities	3482	5/07/94	Neutral	27/04/14	293,812,160	30/04/14	0.82
Cromwell Phoenix Property Securities	16260	14/04/08	Silver	20/03/14	105,846,034	31/03/14	0.97
EQT SGH Wholesale Prop Income	11242	5/03/04	Bronze	31/03/14	612,198,392	30/04/14	0.94
FirstChoice WS Property Securities	11293	23/04/02	Neutral	26/03/14	224,187,793	30/04/14	0.91
Ironbark RREEF Paladin Property Securit	5050	1/03/95	Neutral	26/03/14	244,400,000	30/04/14	0.86
MLC Wholesale Property Securities	4778	1/01/98	Bronze	30/04/14	230,442,974	30/04/14	0.76
SG Hiscock WS Property Securities	3283	15/09/94	Neutral	31/03/14	139,981,939	30/04/14	0.85
SPDR S&P/ASX 200 Listed Property	SLF	15/02/02	Recommended	14/04/14	443,071,406	2/06/14	0.40
Vanguard Australian Property ETF	VAP	15/10/10	Highly Recommended	11/04/14	180,733,324	30/04/14	0.25
Vanguard Australian Property Secs Idx	4744	27/03/98	Gold	11/04/14	1,830,792,602	30/04/14	0.24
Zurich Investments Aus Property Secs	5396	28/02/00	Silver	11/04/14	24,541,351	30/04/14	0.81

Global Listed Property

Name	Ticker	Inception Date	Morningstar Analyst Rating	Global Fund Report Analysis Date	Fund Size Base Currency	Fund Size Date	Indirect Cost Ratio (ICR)
AMP Capital Global Property Securities	12353	30/09/02	Bronze	21/04/14	758,135,563	30/04/14	0.99
CFS Wholesale Global Property Securities	11806	3/05/04	Neutral	15/04/14	292,158,150	30/04/14	1.03
Dimensional Global Real Estate Trust	15778	29/10/07	Neutral	16/04/14	201,419,595	30/04/14	0.42
FirstChoice WS Global Property Sec	15004	6/06/05	Neutral	26/03/14	160,161,854	30/04/14	1.23
Perennial Hedged Gbl Prpty Securities	14287	1/02/06	Neutral	9/05/14	127,505,619	30/04/14	1.05
Resolution Capital Global Property Secs	16747	30/09/08	Silver	3/04/14	212,943,600	30/04/14	1.02
SPDR Dow Jones Global Real Estate Fund	DJRE	1/11/13	Investment Grade	14/04/14	8,165,418	30/05/14	N.Ap
UBS Clarion Global Property Securities I	14291	31/07/06	Gold	14/04/14	168,351,672	30/04/14	0.90
Vanguard Int Property Secs Idx (Hgd)	13427	22/07/05	Bronze	11/04/14	931,938,579	30/04/14	0.43

Appendix 2: Portfolio Characteristics

Australian Listed Property

Name	Ticker	Portfolio Date	# of Holdings (long)	% Asset in Top 10 Holdings	Tracking Error
AMP Capital Listed Property Trusts A	4736	31/03/14	20	86.94	2.07
Antares Prof Listed Property	7050	31/03/14	17	90.45	1.35
APN AREIT	17006	30/04/14	31	71.3	3.13
APN Property for Income	5072	30/04/14	27	70.45	4.42
APN Property for Income No. 2	12927	30/04/14	30	68.95	5.08
BlackRock Indexed Aus Listed Property	9166	31/03/14	31	85.88	0.51
BT Property Investment WS	2727	31/01/14	19	87.26	1.33
CFS Wholesale Property Securities	3482	30/04/14	20	91.1	1.04
Cromwell Phoenix Property Securities	16260	31/01/14	35	72.13	3.12
EQT SGH Wholesale Prop Income	11242	31/03/14	27	83.23	3.51
FirstChoice WS Property Securities	11293	30/04/14	32	86.44	1.44
Ironbark RREEF Paladin Property Securit	5050	31/01/14	19	89.25	0.99
MLC Wholesale Property Securities	4778	28/02/14	37	85.9	0.83
SG Hiscock WS Property Securities	3283	28/02/14	26	86.36	1.78
SPDR S&P/ASX 200 Listed Property	SLF	30/05/14	20	88.45	0.18
Vanguard Australian Property ETF	VAP	30/04/14	27	87.28	0.3
Vanguard Australian Property Secs Idx	4744	30/04/14	27	87.28	0.4
Zurich Investments Aus Property Secs	5396	30/04/14	29	83.33	2.24

Global Listed Property

Name	Ticker	Portfolio Date	# of Holdings (long)	% Asset in Top 10 Holdings	Tracking Error
AMP Capital Global Property Securities	12353	30/04/14	87	37.98	1.89
CFS Wholesale Global Property Securities	11806	30/04/14	82	35.19	2.85
Dimensional Global Real Estate Trust	15778	30/04/14	330	33.71	10.59
FirstChoice WS Global Property Sec	15004	30/04/14	135	31.7	2.15
Perennial Hedged Gbl Prpty Securities	14287	30/04/14	67	46.33	4.32
Resolution Capital Global Property Secs	16747	30/04/14	49	46.33	3.46
SPDR Dow Jones Global Real Estate Fund	DJRE	30/05/14	228	27.56	N.Ap
UBS Clarion Global Property Securities I	14291	30/04/14	75	31.68	1.49
Vanguard Int Property Secs Idx (Hgd)	13427	30/04/14	262	26.51	0.51

Appendix 3: People

Australian Listed Property

Name	Ticker	Lead Manager	Appointed	Average years Tenure (team)
AMP Capital Listed Property Trusts A	4736	Mark Ferguson	Mar-06	6
Antares Prof Listed Property	7050	Brett McNeill	Aug-06	4
APN AREIT	17006	Michael Doble	Jun-03	7
APN Property for Income	5072	Peter Morrissey	May-14	7
APN Property for Income No. 2	12927	Peter Morrissey	Aug-08	7
BlackRock Indexed Aus Listed Property	9166	Paddy McCrudden	Jun-05	11
BT Property Investment WS	2727	Peter Davidson	Jun-05	13
CFS Wholesale Property Securities	3482	Stephen Hayes	Sep-12	2
Cromwell Phoenix Property Securities	16260	Stuart Cartledge	Apr-08	4
EQT SGH Wholesale Prop Income	11242	Stephen Hiscock, Grant Berry	2001, 2002	8
FirstChoice WS Property Securities	11293	Scott Tully	Jun-05	8
Ironbark RREEF Paladin Property Securit	5050	Danny Ekins	Apr-13	8
MLC Wholesale Property Securities	4778	Peter Sumner	Jun-12	16
SG Hiscock WS Property Securities	3283	Stephen Hiscock, Grant Berry	Sep-10, Sep-10	8
SPDR S&P/ASX 200 Listed Property	SLF	Team Managed	N.Ap	N.Ap
Vanguard Australian Property ETF	VAP	Team Managed	N.Ap	N.Ap
Vanguard Australian Property Secs Idx	4744	Alla Kolganova	2000	7
Zurich Investments Aus Property Secs	5396	Carlos Cocaro, Damien Barrack	2005, 2005	11

Global Listed Property

Name	Ticker	Lead Manager	Appointed	Average years Tenure (team)
AMP Capital Global Property Securities	12353	Matt Hoult	2012	6
CFS Wholesale Global Property Securities	11806	Stephen Hayes	Sep-12	2
Dimensional Global Real Estate Trust	15778	Slava Platkov	2013	11
FirstChoice WS Global Property Sec	15004	Scott Tully	Jun-05	8
Perennial Hedged Gbl Prpty Securities	14287	Andrew Calderwood	Apr-14	4
Resolution Capital Global Property Secs	16747	Andrew Parsons	Sep-08	7
SPDR Dow Jones Global Real Estate Fund	DJRE	Team Managed	N.Ap	N.Ap
UBS Clarion Global Property Securities I	14291	T. Ritson Ferguson	1991	10
Vanguard Int Property Secs Idx (Hgd)	13427	Alla Kolganova	2000	7

Appendix 4: Style Box

Australian Listed Property

Name	Ticker	Portfolio Date	Market Cap Giant % (Long)	Market Cap Large % (Long)	Market Cap Mid % (Long)	Market Cap Small % (Long)	Market Cap Micro % (Long)
AMP Capital Listed Property Trusts A	4736	31/03/14	0	51.24	38.06	8.24	2.46
Antares Prof Listed Property	7050	31/03/14	0	70.35	20.84	3.93	1.79
APN AREIT	17006	30/04/14	0	40.39	39.6	12.17	2.99
APN Property for Income	5072	30/04/14	0	38.25	32.89	6.06	2.8
APN Property for Income No. 2	12927	30/04/14	0	35.12	33.16	6.74	4.11
BlackRock Indexed Aus Listed Property	9166	31/03/14	0	60.18	34.08	4.3	0.39
BT Property Investment WS	2727	31/01/14	0	64.43	24.03	3.58	0.92
CFS Wholesale Property Securities	3482	30/04/14	0	63.84	30.23	2.27	0.56
Cromwell Phoenix Property Securities	16260	31/01/14	0	51.88	26.07	5.72	12.44
EQT SGH Wholesale Prop Income	11242	31/03/14	0	42.92	45.67	4.65	0.7
FirstChoice WS Property Securities	11293	30/04/14	0	62.44	27.26	5.89	1.47
Ironbark RREEF Paladin Property Securit	5050	31/01/14	0	73.12	18.05	2.34	0
MLC Wholesale Property Securities	4778	28/02/14	2.26	70.68	18.41	3.48	0.77
SG Hiscock WS Property Securities	3283	28/02/14	0	66.61	24.75	2.43	1.2
SPDR S&P/ASX 200 Listed Property	SLF	30/05/14	0	61.49	35.7	1.28	0
Vanguard Australian Property ETF	VAP	30/04/14	0	60.81	34.86	3.93	0.4
Vanguard Australian Property Secs Idx	4744	30/04/14	0	60.81	34.86	3.93	0.4
Zurich Investments Aus Property Secs	5396	30/04/14	0	61.03	24.24	7.81	2.36

Global Listed Property

Name	Ticker	Portfolio Date	Market Cap Giant % (Long)	Market Cap Large % (Long)	Market Cap Mid % (Long)	Market Cap Small % (Long)	Market Cap Micro % (Long)
AMP Capital Global Property Securities	12353	30/04/14	3.01	35.01	40.79	19.34	0.00
CFS Wholesale Global Property Securities	11806	30/04/14	10.36	36.82	39.37	7.69	0.00
Dimensional Global Real Estate Trust	15778	30/04/14	0.00	52.84	34.10	10.84	1.13
FirstChoice WS Global Property Sec	15004	30/04/14	7.31	43.73	32.29	8.81	0.02
Perennial Hedged Gbl Prpty Securities	14287	30/04/14	7.58	32.18	32.99	18.37	0.74
Resolution Capital Global Property Secs	16747	30/04/14	6.53	42.83	26.38	14.02	0.17
SPDR Dow Jones Global Real Estate Fund	DJRE	30/05/14	4.57	51.94	31.57	9.62	0.95
UBS Clarion Global Property Securities I	14291	30/04/14	5.30	48.63	36.00	7.98	0.00
Vanguard Int Property Secs Idx (Hgd)	13427	30/04/14	2.05	42.13	35.95	14.65	1.50

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