

## ASX ANNOUNCEMENT

Fat Prophets Global Property Fund (FPP) announces its NTA pursuant to ASX Listing Rule 4.12i

### June 2020 Monthly NTA Announcement

Key Points:

- **Fund NTA decreased by 1.05%, mildly exceeding the performance of the Fund benchmark for the month of June.**
- **Active investment positioning continues to occur in fund holdings, with most activity in Europe during the month**
- **FPP remains overweight Australia, and underweight US**
- **Currency was again a headwind to returns as the AUD strengthened**
- **Cash held doubled to 8.8% over the month**

Dear Unitholders,

June proved a volatile month with a significant and rapid rise in global REITs driving portfolio value mid month to a level more than 13% above where it started, before a pricing unwind occurred as investors increasingly considered the emergence of a second wave of COVID which has caused the pace of lockdown to increase and restriction easing to slow.

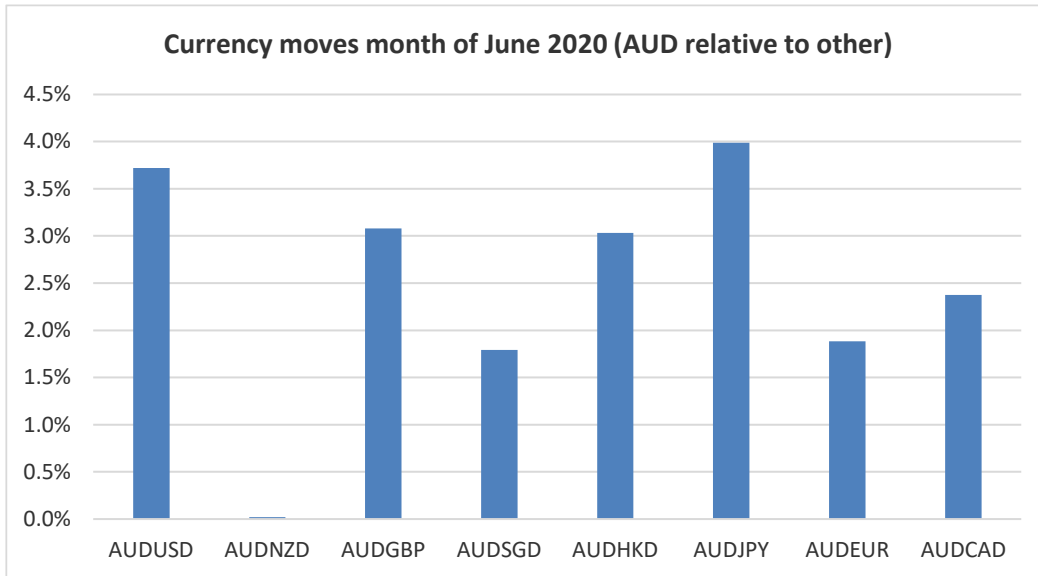
The substantial increase in portfolio value demonstrated the leverage of holdings in the Fund which are deep value oriented across a number of industries. While this initial surge pulled back, we believe the intra month moves demonstrate the upside recovery opportunity in the current portfolio.

Currency again was a headwind to the Fund's Australian dollar denominated returns. We continue to be overweight AUD assets in anticipation of this strengthening AUD which has been occurring since March. This strategy assisted with a mild outperformance vs global Fund benchmark during June.

A summary of the change in NTA for the month of June for the Fund is as follows;

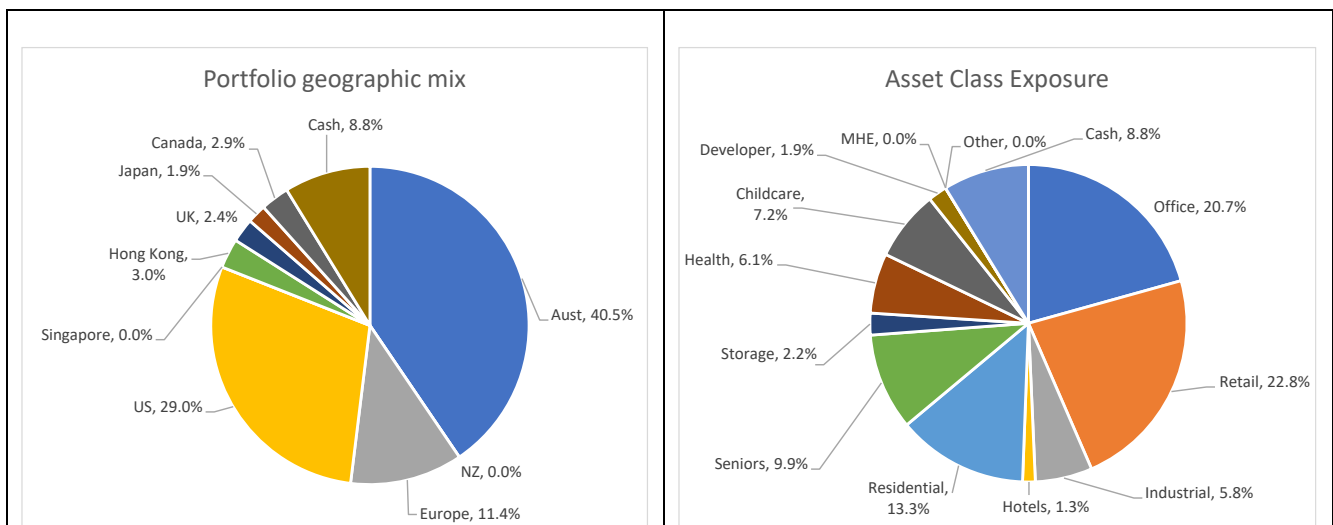
	<b>31-May-20</b>	<b>30-June-20</b>	<b>Change</b>
<b>Value per unit</b>	\$0.8786	\$0.8694	-1.05%

The movement in the AUD vs other currencies during June was material and is summarised below. The Australian dollar once again strengthened vs all major currencies over the month, repeating the move during the month of May although by a smaller factor.



The Fund cash balance was 4.2% at the beginning of June, and post some portfolio rotation it ended June at 8.8%. This provides a buffer to any weakness and opportunity to reinvest into select opportunities.

The current Fund portfolio geographic allocation at the end of June is shown in the following graph on the left. The chart below right shows the exposure by asset class.



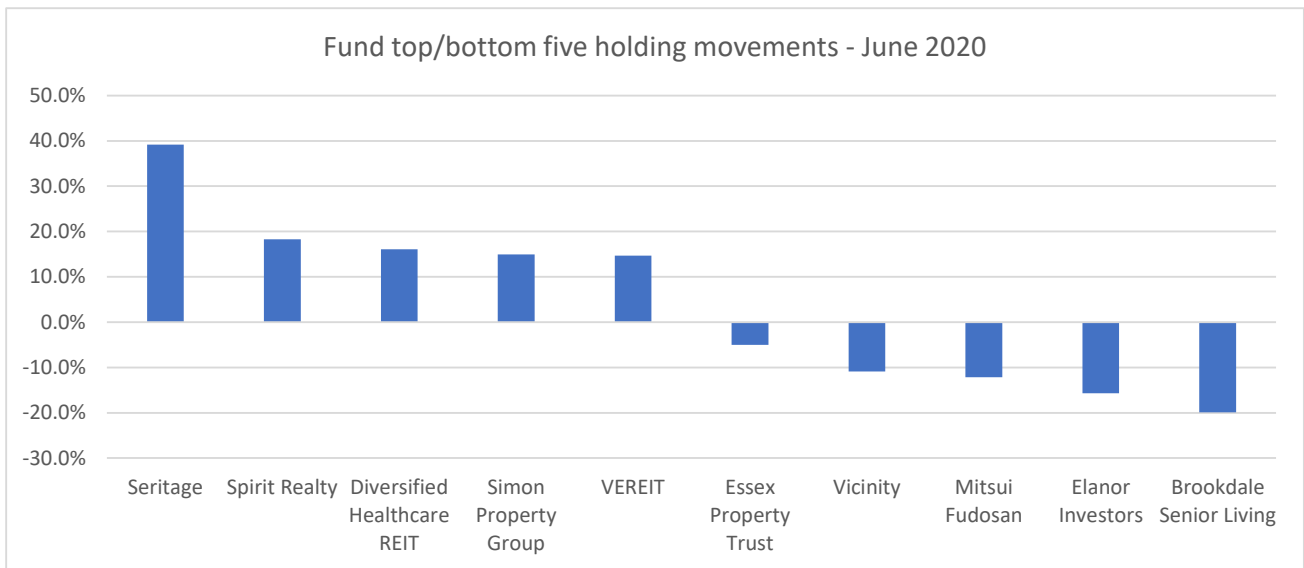
The Fund ended the financial year with meaningful exposure to the retail and seniors sectors which we believe have been oversold on short term factors. The Fund has been underweight the office sector, believing it to be overvalued. While there has been a broad longer term consensus investor view that shopping centres are being eroded by on line retail sales, there has been a growing near term view that the work from home (WFH) phenomenon which has been applied to many businesses over the past three months will cause a longer term structural shift to the way office tenants use and require space. This will apply globally – the largest impact appears to be focussed on Manhattan in New York. Increased required

space per office worker may offset part of this WFH demand loss, and long term leases will mean any income reduction will be gradual.

The number of investment positions held by the Fund at the end of June was 37. Top holdings in the Fund as at the end of the month are summarised in the following chart. The top five holdings continue to be primarily Australian REITs which were trading at very substantial discounts on entry. The top holdings did not meaningfully change during June as the portfolio value ended marginally below flat. Six of the Fund’s top seven stocks have been made, or topped up, since the March major market decline and significant gains have already been achieved on them. We continue to believe that considerable further upside remains, and the major gains in early June only serve to reinforce the scale of recovery opportunity.



The best and worst five performers for the month of June are highlighted in the following chart. The scale of positive and negative movements during the month for the outlying holdings is becoming notably more subdued each month as volatility declines. The worst performing holding in May (Seritage; -20%), experienced a much larger offsetting rise in June. Seritage is focussed on retail ownership of assets anchored by Macys department stores, and in repurposing stores as Macys go through a long term contraction.



## Outlook

REITs have staged somewhat of a price recovery post March, however this stalled in June and many REITs remain fundamentally below their asset backing. In both the US and Australia, the broader equity market has rebounded much more strongly than the REIT sector initially. Over many decades however, REITs have continually proven to narrow premiums and discounts to NTA in time. We expect this cycle will be no different.

We are encouraged to continue to see no evidence locally or globally of real estate assets being sold at material discounts to the pre COVID market value. As such we similarly do not expect any sharp NTA declines to occur within the REIT sector. NTA growth for REITs may be challenged near term as shopping centres and office buildings in particular need to justify their market rent levels – the value we see however, is the large latent discount to asset fair value. Any additional growth in NTA would be surprise upside if it occurred. Given the fact that global interest rates have declined further through COVID, we do see upside valuation risk to real estate assets despite the structural impacts currently apparent.

Distributions from REITs have been impacted as many tenants reduced rent payments over the last quarter. This saw various REITs reduce or cancel their mid year distributions. Domestically this included the likes of Vicinity Centres, Scentre Group and GPT Group. Pleasingly many other REITs did pay a distribution of some sort. The Fund held an overweight exposure to Australian REITs into the June period ex date which assisted in delivering some income which was higher than it would have been if the Fund was at benchmark weighting. This will go toward the 1H FY21 distribution outlook for FPP. Nonetheless, the materially lower distributions from Fund investments for June is impacting the near term distribution outlook for the Fund and no final distribution was declared.

We continue to be optimistic around the recovery opportunity for REITs. Many current holdings are at deep value discounts and we retain the view that many of the Fund's investments present healthy further price upside risk even from current levels. The Fund has a bias toward owning discounted quality assets. The second wave of COVID outbreaks in Victoria is stalling the domestic rebound outlook while the continued ramp up of infections in the US presents a background concern despite many restrictions currently being downgraded in the US. We expect a gradual recovery in Fund NTA rather than a sharp recovery, although we expect that any resurgence in value buying will benefit the Fund's investment positioning for further outperformance.

## **Fat Prophets Global Property Fund**

Chief Investment Officer

Simon Wheatley

7 July 2020

### About Fat Prophets Global Property Fund (FPP.AX)

The Fat Prophets Global Property Fund is an investment trust listed on the Australian stock exchange and managed by Fat Prophets. It invests its capital into Real Estate Investment Trusts (REITs) listed on stock exchanges in developed markets around the world. REITs own real estate assets and generate the majority of their income from rents on their properties, and capital growth from the real estate investments results in increased NTA. FPP's investment weighting benchmark allocation to Australia REITs is around 30%, with the balance in international markets. FPP aims to generate capital growth and distribution income from its investments and has a value bias to its investment strategy.

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<sup>i</sup> Fat Prophets Funds Management Pty Limited (FPPM) (ACN 615 545 536) has prepared the information in this announcement. One Managed Investment Funds Limited (ACN 117 400 987) (AFSL 297042) (OMIFL) is the Responsible Entity of the Fund. While OMIFL has no reason to believe that the information is inaccurate, the truth or accuracy of the information in this document cannot be warranted or guaranteed by OMIFL. This announcement has been prepared for the purposes of providing general information only and does not constitute an offer, solicitation or recommendation with respect to the purchase or sale of any units in the Fund nor does it constitute financial product advice and does not take into account your investment objectives, tax or financial situation or needs.

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