



see money differently

A photograph of an open book with white pages, tied with a white string bookmark. The book is positioned on the left side of the cover, with the pages fanning out towards the right.

Nedgroup Investments Global Property Fund

Quarter Three, 2020

Nedgroup Investments Global Property Fund

Commentary produced in conjunction with sub-investment manager, Resolution Capital

Indicator	3 months	1 year	3 years p.a.	Since Inception [#] p.a.
Portfolio*	2.09%	-8.62%	2.26%	2.40%
Performance indicator ⁺	2.09%	-18.25%	-1.45%	-1.14%
Difference	0.00%	9.63%	3.71%	3.54%

* Net USD return for the Nedgroup Investments Global Property Fund, A class. Source: Morningstar

[#] 14 July 2016

⁺ FTSE EPRA/NAREIT Developed Index (in USD Net Ret)

Summary points

- Uncertainty, (COVID, US Election, Brexit) remains a drag on investor appetite to support the REIT sector.
- REIT returns were led by self-storage, industrial, healthcare and tech real estate. Conversely the traditional core sectors, office and retail, fared worse.
- Urban to suburban living is being factored into Residential REIT prices.
- Rights issues place more pressure on the Retail sector, as well as accelerated e-commerce penetration.
- The ten largest positions in the Portfolio either maintained or increased distributions.
- Office property dynamics led a further reduction to exposure and we exited several positions, reflecting a broader concern on the pricing power of office landlords in a recessionary environment.
- The liquidity of the global listed real estate market was uninterrupted and indeed even elevated during the worst of the pandemic shutdown. Whilst transaction liquidity in commercial property markets collapsed.
- Unsecured bond markets are open and lenders are accepting rates that are at historic lows.
- In this environment it is prudent to expand portfolio diversity including some exposures which will benefit from the alternate paths ahead.
- ESG: Logistics warehouses are at the forefront of incorporating rooftop solar panels as a source of renewable energy.

Market and Portfolio Commentary

COVID-19 continued to be the dominant force driving markets over an erratic quarter. Whilst the sense was the worst is behind us, realistically, until a vaccine becomes widely available or health experts can better manage the effects, confidence is likely to be fragile. Certain industries and segments of society will continue to face challenging financial circumstances with unemployment and underemployment at elevated levels. Supportive fiscal and monetary policies will remain pervasive for the foreseeable future.

Markets also had to operate in the shadow of a US Presidential election campaign, an unexpected change in political leadership in Japan, the world's third largest economy, and the ongoing lack of clarity surrounding the final terms of Brexit.

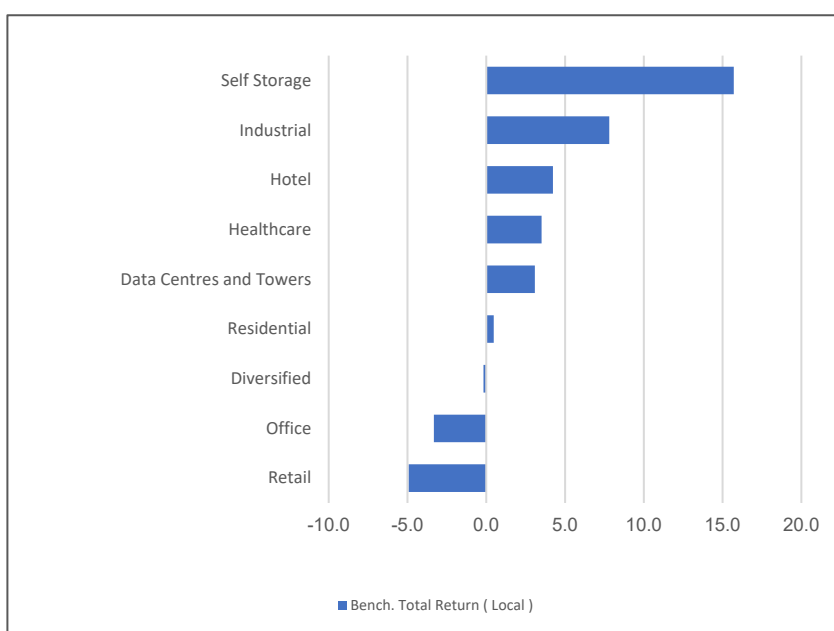
Though there is wide dispersion in operating conditions both by sector and geography, over the quarter commercial real estate markets began to stabilise. Following the sharpest contraction in tenant activity most landlords have ever faced, many properties that had been shuttered gradually reopened and tenants tentatively returned to doing business on-site and in person. Even retail property, one of the most challenged areas of commercial real estate, reported meaningful increases in rent collections from the depths of the crisis in March/April.

In an environment of elevated uncertainty, REIT returns for the quarter evidenced a preference for property segments most resilient to the pandemic. Digitisation, e-commerce and flexible working remain common themes.

REIT returns were led by sectors experiencing minimal disruption in earnings and cash flow: self-storage, industrial, healthcare and tech real estate. Conversely the traditional core sectors which are enduring more challenging operations and structural overhangs, office and retail, fared worse. Hotel REIT prices were little changed as it seems hard for conditions to get worse, albeit with room occupancy generally less than 35%, lingering operating cash flow losses are a latent threat to the sector's capital base.

Our underweight position in the office sector was the largest contributor to relative performance in the quarter. As COVID-19 continues to afflict major economies, office workers shunned the commute into central business districts and continued to work from home. Public transport and elevators are the choke points causing low office utilisation levels, which negatively impacts retailers servicing office workers and related parking income. We further reduced the office exposure in the Portfolio, with the decision principally driven by deteriorating operating fundamentals in many gateway office markets.

3Q20 total returns



Source: Factset, RCL, FTSE EPRA Developed Index (local currency)

The self-storage sector generated the highest returns for the quarter, and our overweight position contributed to relative returns. Notably, U.S. REIT CubeSmart (CUBE) and European self-storage company Shurgard (SHUR) were the two top contributors for the quarter. Evidence of elevated occupancy, improving pricing trends and reinstated customer price increases provided encouragement for investors. SHUR's re-inclusion in the FTSE EPRA NAREIT benchmark during the quarter also boosted the stock price.

Industrial REITs enjoyed continued investor support over the quarter with our overweight to the sector driving relative returns, notably Prologis (PLD), Nippon Prologis (3283) and Segro (SGRO). Industrial and logistics remains one of the favoured sectors as e-commerce demand overshadows softer leasing from some traditional industrial tenants.

Performance across residential REITs was more nuanced with divergent fundamentals evident. In the US, coastal urban apartment markets weakened significantly as residential demand quickly shifted to the spaciousness of the suburbs during the pandemic. Gateway markets such as San Francisco and New York experienced market rent declines of greater than 10% with further declines expected as the traditional peak leasing season ends. Some evidence of moral hazard is also apparent in markets such as California where landlords are restricted from evicting tenants during the pandemic. Our sizeable underweight to US multifamily REITs was a positive contributor over the quarter.

A beneficiary of the urban to suburban exodus, single family home REITs enjoyed good leasing conditions, high occupancy levels and growing rents. Our holding in Invitation Homes (INVH) was a beneficiary and a positive contributor to the Portfolio's relative returns for the quarter.

In another corner of the residential market, German landlords continue to enjoy stable leasing conditions. Our overweight positions in German residential landlords, Vonovia (VNA) and LEG (LEG) benefited performance. Affordability and lack of alternatives underpinned the occupancy of the underlying apartment communities.

On the negative side, our exposure to eponymously named Canadian Apartment Properties REIT (CAR.UT) detracted from performance following the Ontario Government's move to freeze rent increases on existing leases in 2021. While Ontario is a regulated market that limits rent increases on existing leases, this move to flatten rents caught many by surprise and caused a reassessment of near-term growth prospects. Perhaps this is likely to be a temporary measure supporting tenants during the pandemic, but we are cautious of markets with regulatory uncertainty, thus we reduced exposure to what was a large relative position.

As challenges mounted, retail property platforms underperformed, notably the over-leveraged owners of enclosed malls focused on discretionary retail categories. Unibail-Rodamco-Westfield (URW) and UK REIT Hammerson (HMSO) both had their day of reckoning as they announced sizeable rights issues as part of initiatives to cure debt laden balance sheets. In our view, both are the outcome of poor capital management and the industry's already challenged operating dynamics that were simply laid bare by COVID-19.

The Portfolio's retail holdings generated index level returns for the quarter. The underweight to traditional retail (we have no exposure to the aforementioned retail stocks) was unfortunately overshadowed by disappointing returns of two positions, European Mall REIT Klepierre (LI), dragged down by URW's rights issue announcement and a resurgence of COVID-19 in Europe, and US shopping centre REIT Urban Edge Properties (UE).

A recent addition to the portfolio, Klepierre has lower operational and financial risk than peers, and we expect it to benefit as economies reopen. However, even its moderately geared balance sheet was not enough to allay investor concerns about the existential threat to retail at a time when its more indebted peers were being savaged.

We continue to believe that Urban Edge is a true value play where patience is required. The company owns well-located real estate in dense, relatively hard to develop markets in the Washington DC to New York corridor. The stock trades fundamentally cheap: it is now at a point where value is underpinned by alternate uses including self-storage, residential and industrial / logistics.

A reporting season to forget

The divergent trends facing various property types were apparent in the recent mid-year reporting season. At the resilient end of the spectrum industrial, data centres, towers and life science landlords reported steady tenant demand and operations. While at the other, hotel REITs discussed measures to minimise cash burn and retail landlords are trying to stabilise cash flow and manage or reinstate distributions where possible.

Given the unusual impacts of the pandemic our focus shifted from traditional financial account data to more peculiar metrics. Rent revenues, net operating income (NOI) and Funds from Operations (FFO) metrics were heavily influenced by provisions for bad debts which was far from uniform across the REIT universe. The focus shifted to whether properties were open and operating, the quantum of cash rent collections, and cash and liquidity needs.

Notably, many REITs continue to experience some level of operating cash flow disruption, but with signs of improvement even in those segments most impacted. Despite this progression, certain retail formats are still experiencing delinquencies of 20% or more even though most stores are now open and operating. We maintain limited exposure to traditional retail in anticipation of additional store closures and tenant bankruptcies weighing on retail landlords.

Pleasingly, the largest portfolio holdings delivered results in line with expectations. While we have made some changes to the portfolio over the quarter, our most significant exposures continue to be those with operational visibility, resilient tenant demand and appropriate capital structures. Reflecting this, the ten largest positions in the portfolio either maintained or increased distributions.

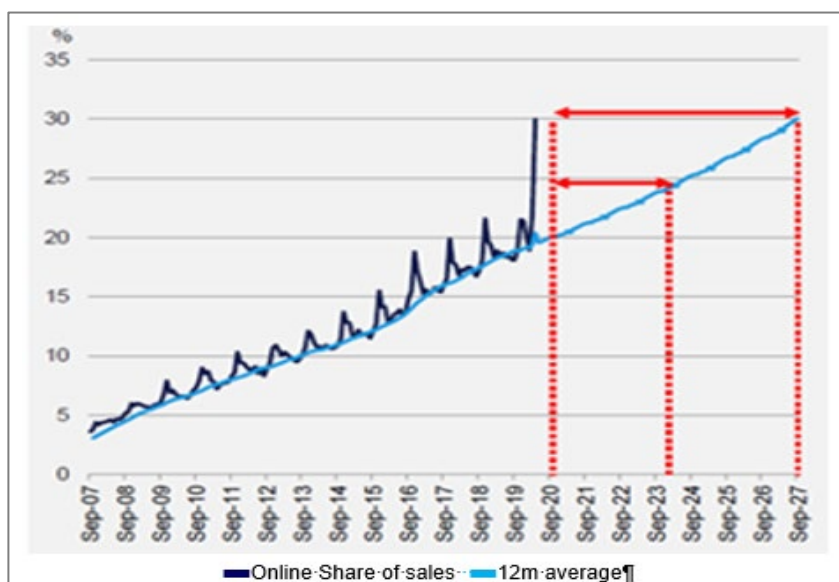
Company	Sector	Region	Dividend Yield	AFFO payout ratio	Dividend Growth
American Tower	Data centre	U.S.	1.8%	54%	✓
Canadian Apartment REIT	Residential	Canada	2.9%	80%	✓
CubeSmart	Self Storage	U.S.	3.8%	92%	✓
Equinix	Data centre	U.S.	1.4%	43%	✓
Healthpeak Properties	Healthcare	U.S.	5.3%	98%	Flat
Invitation Homes	Residential	U.S.	1.9%	56%	✓
Prologis	Industrial	U.S.	2.3%	71%	✓
Reality Income	Retail	U.S.	4.5%	87%	✓
Sun Hung Kai	Diversified	Hong Kong	5.0%	52%	Flat
Vonovia	Residential	Germany	2.9%	85%	✓
Total			2.6%	63%	

Source: RCL, FactSet, Company data

The Mall Global capital call

The challenges for UK mall landlords go far beyond sub-optimal capital structures. E-commerce penetration, already one of the highest in the world, surged during the pandemic to a level not expected until 2027 (chart below). For non-food retail, more representative of mall tenant sales, online penetration peaked at close to 45% during the worst of COVID-19 lock downs. While some retracement is occurring, much of the channel shift is likely to stay, pressuring margins and profitability for many retailers and their landlords. With UK mall values down in some cases by 40%, some of the distress is reflected but until there is clarity on where rental income will settle and tenant demand improves, there is little to attract capital to the sector. Accordingly, the portfolio has no exposure to UK malls.

UK internet retail penetration by month (%)

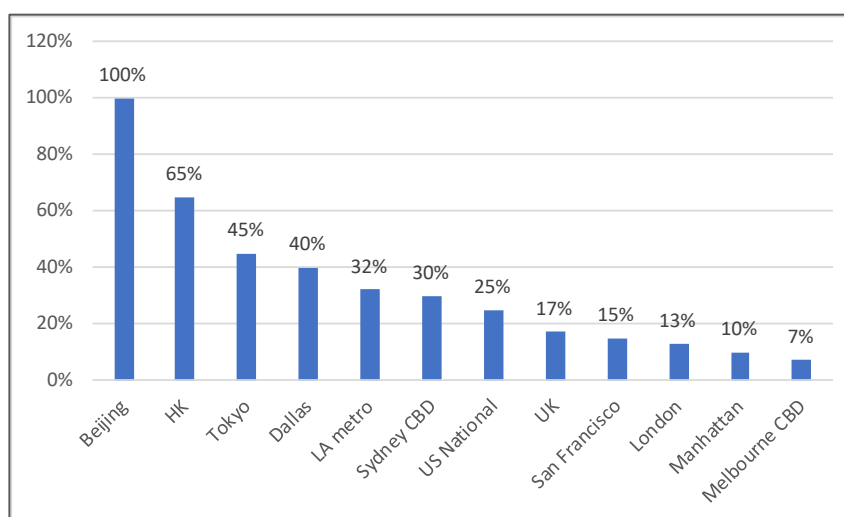


Source: ONS, ASI, BAML Research

(Temporarily) Leaving the office

The debate on the future of offices raged on in the quarter as the return to pre-pandemic utilisation still seems a distant prospect. As we've previously articulated, our fundamental position remains that offices are central to a productive, collaborative workplace seeking to maintain identity and culture. However, the pandemic has provided a window into an alternative world where the commute takes two minutes (bedroom to workspace) and can be done in the comfort of the latest athleisurewear. Provided productivity is maintained, a degree of flexibility / work from home (WFH) is likely to be incorporated into the new work routine which will potentially reduce net office utilisation. Moreover, economic contraction is never good for office markets. As such, office tenant demand is likely to be impacted to some extent for quite some time.

Office utilisation



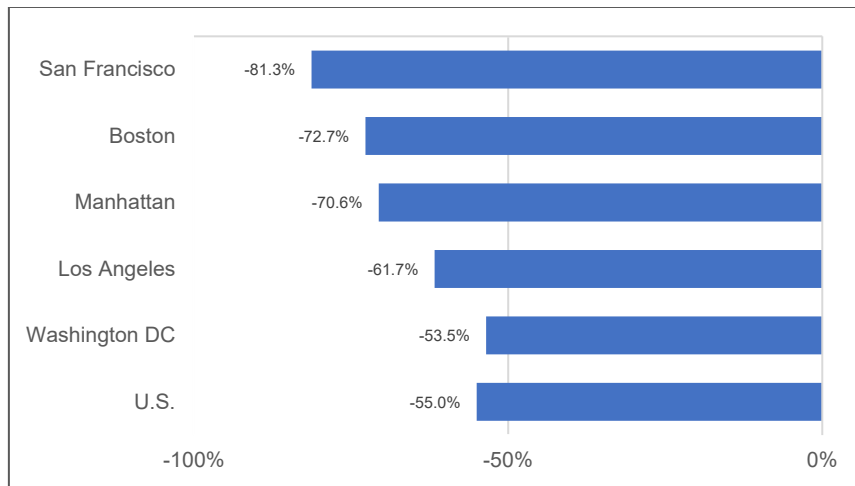
Source: U.S.: WSJ/CBRE @ 18/9; UK: The Guardian/Centre for Cities @ 24/8; AUS: PCA as of August; Asia: Colliers 09/20

The outlook for office is mixed at best. Changes in tenant behaviour draw frequent headlines and numerous corporate CEOs have espoused the success of business working virtually. Some have declared that employees can WFH permanently, including Twitter, Facebook and even old-line UBS to name a few. In San Francisco, Pinterest (PINS) went so far as to pay US\$89.5m (A\$125m) to exit a lease commitment for a building where construction had not even commenced.

Conversely, despite expectations that more than half of its employees would WFH permanently, Facebook leased the entirety of Vornado's (VNO) 730,000 sq ft Farley Building near Penn Station in New York. Similar moves are evident elsewhere. In Sydney, Atlassian plans to develop a A\$1bn HQ at Sydney Central despite announcing employees do not have to return to the office even after the pandemic ends. In the UK, Google signed leases for two additional buildings adjacent to its HQ in Kings Cross, London.

While such headlines suggest there are some signs of life for office markets, the reality on the ground is very different. In many markets leasing volumes have collapsed (chart below). Vacancy rates are increasing with sublease space responsible for much of the rapid increase in availability. Headline or face rents may be holding but net effective rents are plunging as tenant incentives and capital contributions soar. Tenants are simply not able to make long-term decisions given the lack of visibility in their business. With 5 – 10-year leases typically the norm, many tenants are choosing to extend leases for 12 or 24 months to buy time until they are ready to make a long-term commitment. For landlords, this is the lesser of evils, providing some concessions to keep space occupied is far more economical than trying to re-lease vacancy in the current environment.

Q2/Q3 2020 leasing volumes vs. 3 year average



Source: Cushman & Wakefield Research

Adding to the malaise, global co-working operator IWG Group (IWG), previously Regus, has gone nuclear on landlords - threatening to walk away from up to 500 leases unless it can strike lower rents. IWG signs each of its leases in a separate entity without recourse to the parent company, a costly administrative burden that it describes as 'insurance' for when times get tough. It seems the company is about to lodge its claim once again – Regus used similar tactics in previous weak markets in both 2003 (in the U.S. using Chapter 11) and in 2010 in the UK. As the saying goes, "fool me once, shame on you, fool me thrice... well, I am an idiot".

In aggregate these dynamics led us to reduce our office exposure further and over the quarter we exited several positions. Our decision to exit reflects our broader concern on the pricing power of office landlords in a recessionary environment.

Following these changes, and those of the two prior quarters, the exposure to traditional office property (ex-life science) in the portfolio has been reduced to an historically low around 5%. This reflects a combination of our concern for office fundamentals but importantly the increased breadth of property types we can invest in that have more resilient operations in challenging economic times. We are not calling the end of office, rather we currently see more attractive relative opportunities where the demand outlook and return profile is clearer.

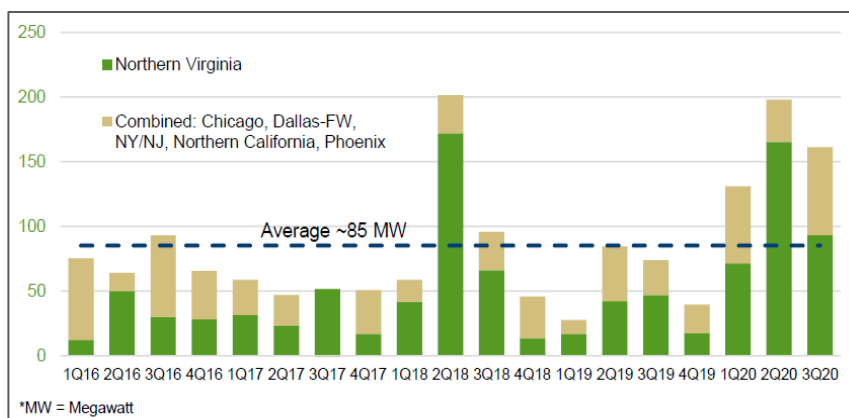
Logistics – growing to the sky?

E-commerce driven demand for logistics properties continued unabated in the quarter. The pandemic has pulled forward an estimated five years of expected online sales growth in the US and UK. In the US this is evidenced by the scale of Amazon's (AMZN) roll out where they will increase fulfilment capacity by over 50% this year. To put that in perspective that equates to over half of Walmart's (the largest U.S. retailer by sales behind Amazon) distribution network which was developed over 50 years. Similar trends are evident in other markets. In the UK, the third quarter had the greatest take-up of logistics space on record driven predominantly by pure-play online retailers, food retailers and third-party logistics. Reflecting the continued strength in industrial fundamentals we added two new positions in the quarter.

Tech – pausing

Performance in technology real estate, data centres and telecommunications towers, diverged in the quarter. US data centre REITs enjoyed some of the best leasing conditions in the last five years driven by elevated activity of hyperscale customers (large-scale data deployments from the likes of Amazon Web Services (AWS), Microsoft, Google, Facebook, etc). Leasing in Europe was particularly strong, as was the largest North American market, Northern Virginia. Demand for data centre capacity continues to grow with the current pandemic conditions only serving to reinforce entrenched structural trends.

Quarterly data centre leasing – Top 6 markets (MW)

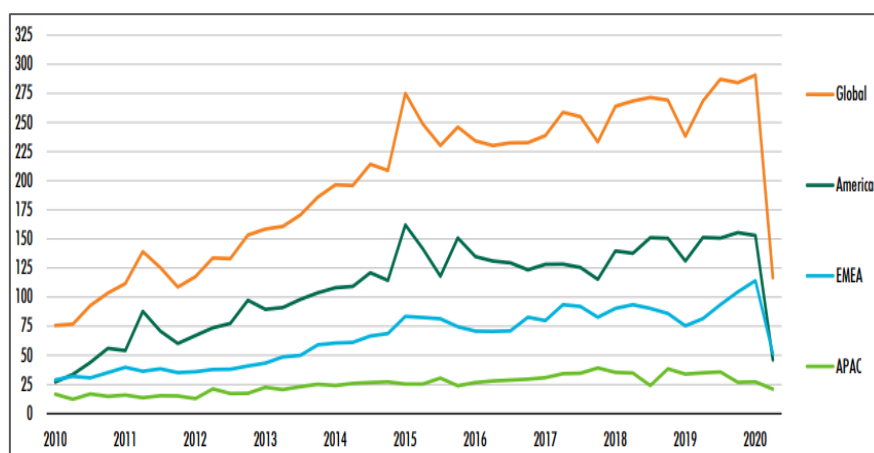


Source: Greenstreet Advisors / Data Centre Hawk

The value of liquidity

Transaction liquidity in commercial property markets collapsed in recent quarters given the challenges of performing due diligence during lock down and underwriting transactions with the uncertainty in near-term cash flow for certain property segments.

Global real estate investment volumes US\$bn



Source: CBRE

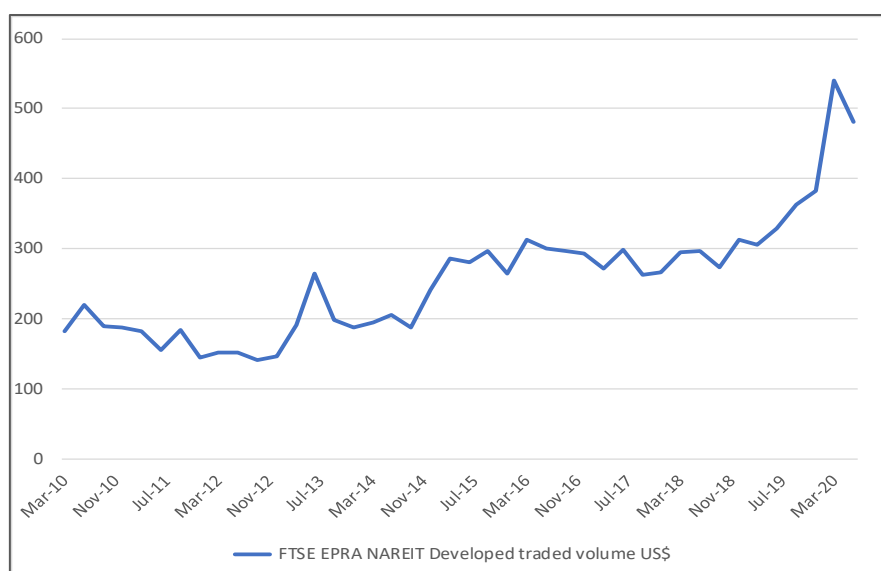
In contrast, the liquidity of the global listed real estate market was uninterrupted and indeed even elevated during the worst of the pandemic shutdown. While the prices achieved may not always be palatable, the value of liquidity during times of market stress is the ability for investors to reallocate capital and raise cash should it be required.

Indeed, the liquidity of the listed real estate market was a source of opportunity for private real estate investors seeking to deploy capital while direct transaction markets were shut.

During the quarter Brookfield increased its investment in UK Diversified REIT, British Land, to 9.2%. Next on the list was private equity firm KKR which acquired a 5.4% interest in UK West End office REIT, Great Portland Estates (GPOR). Prior to the announcement GPOR was trading at a 37% discount to March 2020 Net Asset Value (NAV) providing a reasonable entry point for long-term investors seeking to build a position of scale. Blackstone (BX) was also active via its private REIT vehicle, BREIT, investing US\$314m in exchangeable preferred units in Canadian listed residential REIT Tricon (TCN).

With significant pools of committed and undrawn capital and discounts to NAV for certain listed REIT segments, we expect to see more activity by PE capitalising on the liquidity offered by listed real estate markets.

Global listed real estate liquidity US\$bn



Source: FTSE EPRA NAREIT, Bloomberg

While transaction activity has been subdued, there have been a number of recent deals as noted in the table below which highlight that publicly traded REITs are trading at discounts to private market values.

Recent transactions

Asset/ Location	Sector	Buyer/Seller	Price (million)	Yield	Price per square	Listed market disc./prem.
Biomed portfolio, US	Life-Science	Blackstone REP8 / Blackstone Core+	US \$14,600	—	US \$1,290/ft	-30%
Aimco CA portfolio, US	Multi-Family	Institutional investor / Aimco	US\$936	4.0%	—	-26%
7 Soho Square, London	Office	Hines Core Fund / Landsec & Hines	£78	4.0%	£1,260/ft	-25%
452 Flinders St, Melbourne	Office	Deka / Dexu Wholesale Fund	A\$450	4.7%	A\$26k/m	-22%
Nova Victoria, London	Office	Suntec / CPPIB	£431	4.60%	£1,540/ft	-15%
SHiFT Building, Paris	Office	Institutional investor/ Unibail-Rodamco-Westfield	€ 620	—	€13k/m	-5%
Storage Mart, US	Self- Storage	GIC-Cascade / Private	US \$2,700	sub 5%	—	-5%

Source: Company Reports

Debt is cheap, equity is not

With debt markets wide open during the quarter, some of the defensive measures taken in the prior quarters, such as drawing down lines of credit to ensure ample liquidity, began to be unwound. Refinancing has not been an issue for REITs who can readily access the unsecured debt markets to roll maturities at increasingly attractive all-in rates. This is true even for the more challenged retail property sector.

At the long end of the curve, three US REITs, Simon Property Group (SPG), multifamily residential Essex (ESS) and logistics platform Prologis (PLD) issued 30-year bonds. Pricing was extremely attractive for the duration with coupons ranging from 2.125% for PLD to 2.65% for ESS and 3.8% for SPG. Even Host Hotels (HST), a business with is currently burning cash albeit with modest aggregate leverage, issued \$750m of 10-year bonds with a 3.5% coupon.

Outlook

Real estate operating conditions in most markets are beginning to stabilise as landlords, tenants and customers adapt and deal with the initial fall-out from the pandemic. Evidence around the world suggests a clear desire to return to normality as the virus abates and societal restrictions ease. This is encouraging but much remains to be solved as the true impact of the pandemic has largely been masked by significant fiscal and monetary stimulus and lender forbearance.

At the end of the quarter the global listed real estate sector remains 26% below its pre-pandemic peak in February. The rebound trails broader equities which have largely recouped the pandemic drawdown. While this is disappointing, it reflects the disproportionate impact that some real estate segments face when tenants and customers are locked up at home. With the exception of the structurally challenged areas of the market (e.g. enclosed malls, commodity office property) we remain optimistic that the ravages of COVID-19 will be a temporary phenomenon and cash flows will recover as businesses adapt and social restrictions ease.

The policy response to the pandemic has pushed interest and discount rates to new lows. Central banks around the world are clearly messaging that interest rates will be low for the foreseeable future even to the point of allowing inflation to run ahead of existing mandates in some markets. Anchoring discount rates at historically low levels should support asset prices particularly those with resilient growing cashflows. For real estate markets this has manifested in increasing values for COVID-19 resilient real estate such as logistics, technology and life science property. As progress is made on taming the virus and the economic recovery continues, we expect this to broaden out across the real estate spectrum.

Real estate transaction markets are returning to life. The first flurry of deals focused on those areas of the market experiencing little COVID-19 disruption: logistics, data centres, life-science, residential and net-lease real estate. Toward the end of the quarter and in the subsequent weeks material transactions in the office sector also returned, with long leased assets trading at similar values to pre-pandemic levels. In a world of negative interest rates and awash with liquidity real estate will continue to appeal where it offers a reasonable prospect of secure income.

We are optimistic that we are on the path to recovery after one of the sharpest economic contractions in history. Progress on managing the duration and severity of the pandemic is however an important influence on the ability of economies to continue healing. Here a solution is far from certain and there is a wide range of outcomes which creates a challenging dynamic in positioning the portfolio. In this environment we believe it is prudent to expand portfolio diversity including some exposures which will benefit from the alternate paths ahead. Remaining true to our principals we continue to concentrate the core of the portfolio in areas which have visibility in operations, reasonable demand and supply dynamics and sound capital structures. We believe this will hold us in good stead for whatever lies ahead.

ESG Matters

Shining a light on rooftop solar

Logistics warehouses are at the forefront of incorporating rooftop solar panels as a source of renewable energy. This is perhaps not surprising given the large surface areas of warehouse rooftops. Industrial REIT landlords are increasing their commitment to solar initiatives, driven by a mix of company, investor and tenant demand to reduce carbon emissions. Additionally, strong property market fundamentals have afforded logistics landlords an attractive cost of capital which has helped fund increased investment in solar.

Most REIT landlords prefer to own, and therefore control, the solar panels rather than outsource to a third party. A typical warehouse can accommodate around one megawatt (MW) of capacity and covers approximately 50-60% of the rooftop area. Installation costs are circa US\$700k per MW. The useful life of the panels is around 20-30 years, and as such is more suited to younger buildings as it would be uneconomic to have to replace roof sheets on an older building before the solar panels reach the end of their useful life. Moreover, older roofs may not be able to bear the weight of the panels. As such, landlords with younger portfolios and/or a development capability are better able to deploy solar panels.

The revenue models range from selling energy directly to tenants within the building, selling to the grid, or receiving government subsidies (Green Certificates). Government subsidies are typically fixed amounts for a period of time (ranging from 10 to 20 years) depending on country and year the scheme was established. Geographically, Japan appears to have the most attractive government subsidies, followed by Northern Europe. More recent subsidy schemes are less generous than earlier iterations as the cost of solar panels has reduced significantly.

It is not always clear what proportion of a building's total energy consumption will be generated from solar panels as landlords often don't have visibility into the tenant power usage data. However, this is improving over time as landlords install energy monitoring tools. For many logistics tenants rooftop solar panels can generate enough power to cover their entire needs, but more intensive energy users such as multi-storey logistics warehouses, cold storage or highly automated ecommerce facilities still need to rely on the grid for much of their power.

In some locations, tenants can save up to 30% on their energy bills buying solar power from their landlords - but it is not just about the cost savings and environmental benefits. Some tenants also view rooftop solar as a part of their energy security plan.

Belgian listed logistics REIT Warehouses de Pauw (WDP), currently has 85MW of installed capacity across a third of its buildings. Solar revenue contributes approximately 7% of total portfolio income – thus the company boasts that its 'largest tenant is the sun'.

Prologis (PLD) has over 200MW of capacity across its portfolio, a 46% increase over the past five years, and plans to double that to 400MW over the next 5 years.

Goodman Group (GMG) is even more ambitious, recently announcing it would quadruple its 2025 target from 100MW to 400MW of installed capacity – a ten-fold increase from its current installed base. For context, 400MW could power approximately 120,000 homes for a year.

REIT landlords we surveyed indicate that the return on investment over the useful life of the panels is typically in line with the internal rate of return on the real estate.

Battery storage is not yet widespread as the economics currently don't pencil. However, as battery costs are expected to continue to fall rapidly it is hoped that battery storage becomes more feasible within the next 3-5 years.

We are encouraged by the increased commitment to solar panels by many industrial REIT landlords and will continue to engage with investee companies to promote the use of renewable energy sources.

(Mis)-allocation of green capital?

German listed office landlord Alstria Office REIT (AOX) has long been a leader in sustainability. It was one of the first G-REITs to be "carbon neutral", though it doesn't advertise this fact because it does use some carbon offsets to achieve this.

In recent years the company has completed multiple sustainability projects. As these projects met financial criteria they were "no-brainers". However, more recently the Company identified several projects which don't meet their financial hurdles, presenting a green investment dilemma.

Earlier this year the Company announced it was putting the onus on investors to make a green capital allocation decision. It proposed a "Green Dividend" of €0.01 per share (approximately €1.8 million) in addition to the company's regular dividend. If shareholders voted to receive the dividend in cash, they could do as they wish with the proceeds. Without obligation, Alstria encouraged investors to consider allocating that capital to renewables.

Alternatively, if shareholders declined to receive the dividend, AOX would interpret that as a mandate to re-invest the €1.8 million internally into two identified carbon reduction projects within its own real estate portfolio. Alstria's proposed internal projects were costed at €17,600 per tonne of carbon saved per annum, which is 50x more costly than the €350 per tonne achieved by investments in non-real estate Green Bonds, analysed by the Company.

At the recent AGM, 95.1% of those voting opted to receive the cash. Whether they heed management's advice to invest in renewables will never be known. Transferring the onus onto investors comes with the risk that the capital will not be invested in carbon reduction projects at all. Critics may also argue that the company should make a holistic assessment of the feasibility of environmental capex within the context of its investment scope.

We applaud management for raising important questions as to how investments in sustainability should be assessed, including highlighting a potential mis-allocation of capital when carbon reduction projects within its portfolio are benchmarked against other initiatives that investors may be able to access.

Governance: AGMs virtual only?

In many countries, including Australia, it has been a requirement that shareholder meetings be held in a physical location. Now due to COVID-19, authorities have temporarily allowed meetings to be held virtually. Furthermore, the Australian Treasury has issued draft consultation to permanently allow virtual-only meetings.

Proxy advisor ISS noted that during the current Australian AGM season many companies have proposed amendments to their constitutions to allow virtual only shareholder meetings going forward. So far, we haven't seen any A-REIT propose this change. Indeed, it would be somewhat ironic if the real estate industry championed virtual only meetings.

One concern with virtual only meetings is that it potentially becomes harder to get through to ask questions and to follow-up without being cut off. We also believe physical presence has a greater sense of meaning. Hence, there is a risk that the public display of corporate governance and accountability will most likely be reduced

However, sometimes it is simply not practical to be present and this too can lead to a reduction in investor engagement. Hence, we believe a hybrid option, which serves both physical and online audiences, provides the best of both worlds: improved engagement without the risk of less accountability.

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FEES

A schedule of fees and charges is available on request from Nedgroup Investments. One can also obtain additional information on Nedgroup Investments products on our website.

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