



Australian Listed Property Sector Wrap-Up

October 2012

Co-Heads of Fund Research

Chris Douglas
Tim Murphy, CFA

Research Manager

Tom Whitelaw

Fund Research Analysts

Darren Cunneen
Mark Laidlaw
Alex Prineas
Julian Robertson
Brook Sweeney
Tim Wong, CFA
Kathryn Young

Editorial & Communications Manager

Phillip Gray

Executive Summary

Morningstar has completed qualitative research assessments of 21 Australian listed property strategies. This Sector Wrap-Up provides an overview of our key observations and a summary of our Morningstar Analyst Ratings.TM

In the first section of this report, we examine whether the case for investing in a dedicated Australian real estate investment trust (AREIT) strategy remains a viable proposition for investors. We assess the sector's key characteristics, including the prospects for high, sustainable income generation.

We next re-examine the question of diversification in the sector, discussing the level of stock and sub-sector concentration, and the alternatives fund managers are considering when establishing investment universes and building portfolios.

Fees are a vital consideration for investors and advisers, irrespective of asset class. Numerous studies have shown that the more expensive an investment strategy, the harder it is for the fund manager to deliver excess returns over the long term. We move on to consider the interactions between fees, performance, and tracking error. A smaller fee hurdle can be a substantial and sustainable competitive advantage over time, and our Morningstar Analyst RatingsTM reflect this conviction.

Although the sector has performed very strongly over the past two years relative to the wider Australian sharemarket, fund managers have remained wary. In the next sections of this report, we look in detail at who has been buying, and why, and how the Australian listed property sector has performed relative to its global counterpart, and the factors which have been driving these relative performance track records.

Finally, we consider the role a dedicated Australian listed property strategy could play in an investment portfolio, keeping diversification firmly in mind, before discussing the changes to our Morningstar Analyst RatingsTM and which funds we designated Morningstar Medallists.

Full copies of our research reports are as always available in Morningstar[®] Adviser Research CentreTM, Morningstar[®] Adviser Workstation, and Morningstar DirectTM.

Does the Case for Australian Listed Property Still Make Sense?

Australian listed property has traditionally played an important role in most local investors' portfolios, and for good reason. Real estate investment trusts (REITs) have produced extended periods of strong and stable income, adding attractively to their returns potential and creating the widespread view of the asset class as relatively defensive. And since property is generally considered a separate asset class with distinct risk and return characteristics, REITs can diversify an investor's equity portfolio.

The case for a dedicated allocation has come under fire in recent years, however. This is in part an understandable reaction to the sector's poor performance during the global financial crisis. The S&P/ASX200 AREIT Accumulation Index fell 54.0 percent in 2008 while the broader Australian sharemarket, as measured by the S&P/ASX200 Accumulation Index, fell 38.44 percent. The poor performance of the AREIT sector was magnified because many trusts leveraged up their balance sheets in the boom years preceding the crisis.

Other parts of the argument against a dedicated REIT allocation carry greater weight. The sector has become incredibly concentrated: **Westfield Group** WDC and **Westfield Retail** WRT comprised more than 40.0 percent of the index at 31 July 2012, and the 10 largest stocks about 93.0 percent of index capitalisation. As we've discussed in previous Sector Wrap-Ups, this makes it difficult for active fund managers to achieve meaningful diversification and differentiate themselves from the index enough to warrant active management fees. Additionally, global real estate funds have proliferated. Twelve new strategies have been launched since the start of 2007, bringing the total to 35, and many now have performance track records of five years or longer. Because most of these funds include Australia in their universes, they offer an alternative to dedicated AREIT strategies. In the following pages, we take a closer look at these arguments, in an effort to determine whether AREIT funds still deserve a place in investors' portfolios.

Stable Income

Historical data supports the notion that Australian real estate funds offer relatively high and stable income. Table 1 below compares the income return generated by the major market indices for the Australian real estate, global real estate, global listed infrastructure, and large-cap Australian share fund sectors from 2007 - 11. The table shows that the Australian real estate trust index has consistently generated the highest income returns.

Table 1: Annual Income Returns From Asset Class Market Indices, 2007 - 11

| Index | 2007 % | 2008 % | 2009 % | 2010 % | 2011 % |
|--|-----------|-----------|-----------|-----------|-----------|
| S&P/ASX200 AREIT | 4.75 | 3.41 | 8.17 | 6.00 | 5.94 |
| UBS Global Investors (\$A Hedged) | 2.50 | 2.34 | 5.90 | 3.77 | 3.08 |
| S&P Global Infrastructure (\$A Hedged) | 2.83 | 2.06 | 4.29 | 3.44 | 3.43 |
| S&P/ASX200 Accumulation | 4.26 | 2.84 | 6.18 | 4.14 | 3.97 |

Source: Morningstar Direct™

Perhaps more importantly to investors, Australian real estate investment trust funds have been better able to transform that underlying dividend income into consistent fund distributions, as Table 2 below shows.

Fund distributions are of course affected by more than just the underlying trusts' dividend yields. For example, funds with offshore property exposures hedged back to the \$A are vulnerable to distribution disruptions caused by substantial losses on foreign exchange hedging positions. These losses are almost always funded from the income account. Many global real estate and global listed infrastructure funds failed to pay distributions in 2009 because they needed to pay for losses caused by sharp declines in the \$A during the third quarter of 2008. This vulnerability makes AREIT income streams attractive by comparison.

Table 2: Median Annual Income Returns from Fund Categories, 2007 - 11

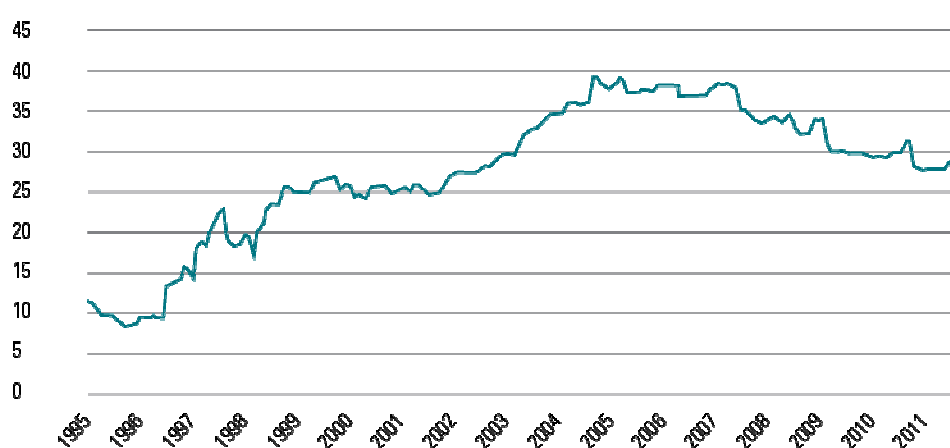
| Category | 2007 % | 2008 % | 2009 % | 2010 % | 2011 % |
|------------------------|-----------|-----------|-----------|-----------|-----------|
| Australian Real Estate | 13.83 | 7.33 | 7.86 | 6.40 | 4.91 |
| Global Real Estate | 11.62 | 11.12 | 0.00 | 0.00 | 12.98 |
| Infrastructure | N.Ap. | 6.26 | 0.00 | 6.27 | 10.99 |
| Australian Large-Caps | 12.85 | 6.86 | 3.80 | 3.48 | 4.14 |

Source: Morningstar Direct™

A Stronger Balance Sheet

The income return potential of AREIT funds could also be diminished by other issues, including poor balance sheet management and falling rental prices, but investors have reason to be confident about the sector's short- and medium-term income sustainability. Trusts across the sector have cleaned up their balance sheets on the back of big capital raisings in 2008, so gearing has reached more prudent levels, as Figure 1 below shows. Many trusts have also bought back shares, a further signal of improved financial health.

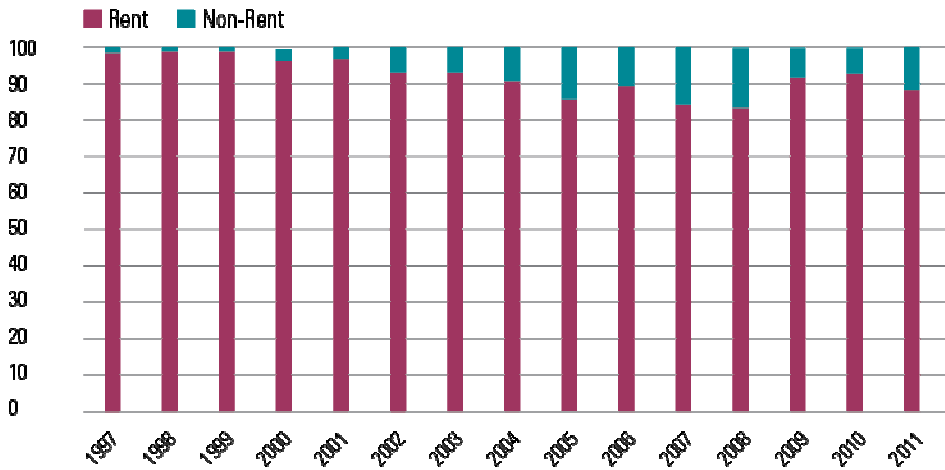
Figure 1: Gearing Levels in Australian Listed Property Sector %, 1995 - 2011



Source: UBS Securities

Most trusts have also cleaned up their business models. In the decade before the crisis, many trust managers sought greater and more diverse returns through international acquisitions and riskier asset management endeavours. This exacerbated the sector's sensitivity to asset price declines and investor risk aversion. More recently, though, many trusts have divested foreign assets or stated their intention to, and have refocused on their traditional bread-and-butter activity of collecting rents in Australia.

Figure 2: Australian Real Estate Investment Trust Rental/Non-Rental Income Split, 1997 - 2011

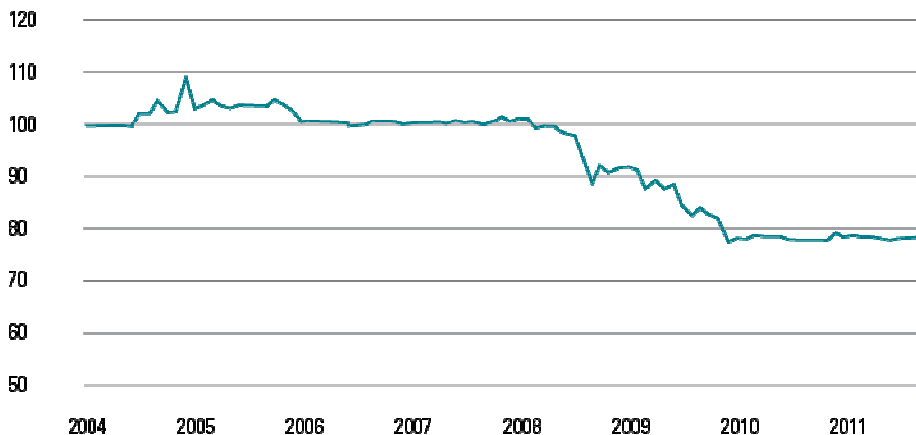


Source: UBS Securities

Sustainable Income

In perhaps the most compelling argument for the sustainability of their income distributions, most AREITs have returned to reasonable payout ratios (the proportion of income paid out as dividends). As Figure 3 below demonstrates, many trusts were paying out more than 100.0 percent of their earnings before 2009, but this has fallen to just under 80.0 percent. This is much more sustainable, and leaves plenty of room to maintain the health of the properties and the trust's balance sheet. We believe that investors and advisers should approach AREITs with a total return perspective, not least because the potential for capital gains and losses can easily overwhelm the income return. However, the data analysed here suggests that relatively high and stable income continues to offer a compelling reason for owning a dedicated AREIT strategy.

Figure 3: Australian Real Estate Investment Trust Sector Payout Ratios on Forward Earnings %, 2004 – 11



Source: UBS Securities

Highly-Concentrated Universe Getting Smaller

Critics of the Australian listed property sector continue to point out that the principal structural limitation remains – lack of diversification. The sector has always been particularly concentrated relative to other asset classes at the individual stock and sub-sector levels and in the number of actual stocks in the index. The stock-level concentration was a consequence of the dominance of **Westfield Group** WDC. Westfield has typically made up at least a third of the benchmark, spiking to more than 54.0 percent at 28 February 2009 during the global financial crisis. This concentration makes it difficult for fund managers to effectively create diversified portfolios, because success or failure in the asset class is essentially determined by this one call. This was to some extent alleviated by Westfield's decision to spin off some of its retail assets in **Westfield Retail** WRT at the end of 2010. Even after the demerger, however, the sector remains both concentrated and top-heavy. Table 3 below shows that the top 10 stockholdings of **Vanguard Property Securities Index 4744** (an effective proxy for the S&P/ASX300 AREIT Accumulation Index) at 30 June 2012 accounted for 91.95 percent of the total index. Table 4 shows the same snapshot five years ago at 30 June 2007.

Table 3: Top 10 Holdings of Vanguard Property Securities Index Fund at 30 June 2012

| Stock Name | ASX Ticker | Portfolio Weighting % |
|------------------------------|------------|-----------------------|
| Westfield Group | WDC | 28.67 |
| Westfield Retail | WRT | 11.57 |
| Stockland Corporation | SGP | 9.88 |
| GPT Group | GPT | 7.93 |
| Goodman Group | GMG | 7.27 |
| CFS Retail Property | CFX | 6.58 |
| Dexus Property Group | DXS | 6.50 |
| Mirvac Group | MGR | 6.29 |
| Centro Retail Australia | CRF | 3.83 |
| Commonwealth Property Office | CPA | 3.44 |

Source: Morningstar Direct™

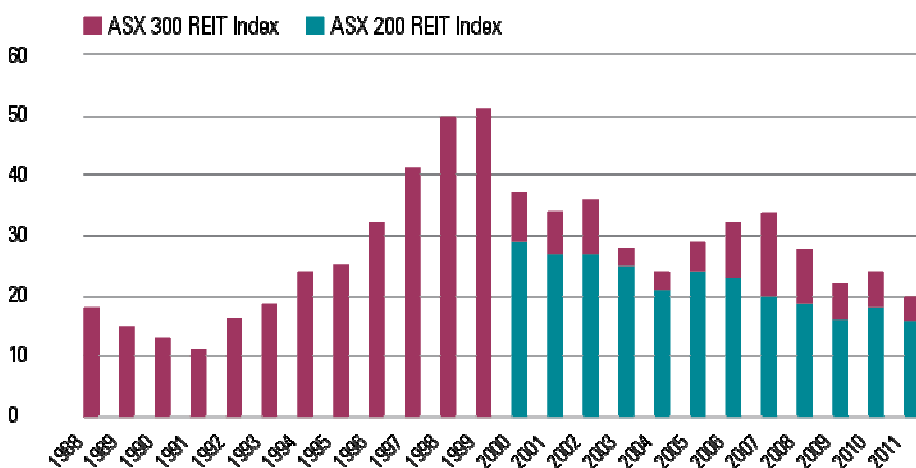
Table 4: Top 10 Holdings of Vanguard Property Securities Index Fund at 30 June 2007

| Stock Name | ASX Ticker | Portfolio Weighting % |
|--------------------------|------------|-----------------------|
| Westfield Group | WDC | 28.09 |
| Stockland Corporation | SGP | 9.12 |
| Goodman Group | GMG | 8.55 |
| GPT Group | GPT | 7.71 |
| Centro Properties Group | CNP | 5.79 |
| Mirvac Group | MGR | 4.66 |
| Dexus Property Group | DXS | 4.58 |
| Investa Property Group | IPG | 3.59 |
| Charter Hall Office REIT | CQO | 2.65 |
| Multiplex Group | MXG | 2.41 |

Source: Morningstar Direct™

Examination of Tables 3 and 4 shows that the index has become more concentrated – at 30 June 2007, the 10 largest constituents comprised 77.15 percent of the overall index. Additionally, there has been significant corporate activity in the sector. **Multiplex MXG** and **Charter Hall Office CQO** were delisted after takeover actions in 2007 and early 2012 respectively, while **Centro Properties Group CNP** spent the last few years fighting off the possibility of liquidation, re-emerging in mid-2012 as **Centro Retail Australia CRF**. **Westfield Group WDC**'s domination has only been exacerbated by the slow decline in the number of index constituents. There were almost 50 names in the sector just over a decade ago, but this number has steadily shrunk to under 20 (in the case of the S&P/ASX200 AREIT Accumulation Index), because of mergers and acquisitions, companies going private, and corporate collapses. Figure 4 below shows the change in the number of index constituents from 1988 – 2011.

Figure 4: Index Constituents of S&P/ASX200 and 300 REIT Indices, 1988 - 2011



Sources: UBS Securities, Antares Capital

A number of trusts at the lower end by market capitalisation are too small for most AREIT fund managers to meaningfully consider, which only makes matters worse. To cope, some fund managers have widened their investment universes to include infrastructure or property-related names outside the index – **Sydney Airport SYD** and **Lend Lease Group LLC** are two common examples. This suggests that any further reduction in the sector's constituent list could critically impair an AREIT fund manager's ability to build a portfolio of investable stocks.

Recent trends in corporate activity have been neutral at best for the sector's breadth. Some trusts, including **Charter Hall Office CQO**, **Tishman Speyer Office TSO**, and **Dexus Rents Trust DXR** have delisted from the Australian Stock Exchange, while initial public offering activity has been slow. The only real activity has been **US Masters Residential Property Fund URF**. However, there remains scope for further IPOs in the second half of 2012. One apparent reason for the lack of IPO activity has been the sector's discount to perceived fair value, but this gap narrowed meaningfully in the first half of 2012, and the fund managers that we talk to argue that there is potential for offerings from Brookfield and a **Woolworths WOW**-based retail trust.

Australian listed property suffers from a lack of diversification at the sub-sector level. **Westfield Group WDC**'s dominance means that the Retail sub-sector accounted for almost 53.0 percent of the S&P/ASX300 AREIT Index at 30 June 2012. Diversified trusts made up 34.0 percent, while the Office and Industrial sub-sectors were both in single digits. This is a favourite argument for those espousing the case for owning global property instead of a dedicated allocation to the local market.

The Importance of Fees

Research undertaken by Morningstar and numerous others has shown that fees are the most reliable predictive factor for funds' future relative performances. That is, funds with lower expense ratios are more likely to outperform their average peers or market benchmark than funds with higher expense ratios. The reason is both simple and intuitive: funds that have lower fees naturally have a lower hurdle to clear before outperforming. Studies have shown this to be the case across all asset classes, but it tends to be especially relevant for strategies that exhibit low differentiation and smaller dispersion of returns.

Australian real estate investment trust funds have exhibited reasonable returns dispersion, but as previous Sector Wrap-Ups have demonstrated, the funds we cover typically show minimal differentiation from the index. This lack of differentiation can make it difficult to outperform the index and competitors, especially net of fees, and this has been the case in the listed property sector. Table 5 below shows the relative performances of the Morningstar Australian Real Estate fund category average and the S&P/ASX200 AREIT Index over the one, three, and five years to 31 August 2012.

Table 5: Relative Performance of Morningstar Australia Real Estate Fund Category Average vs S&P/ASX200 AREIT Accumulation Index to 31 August 2012

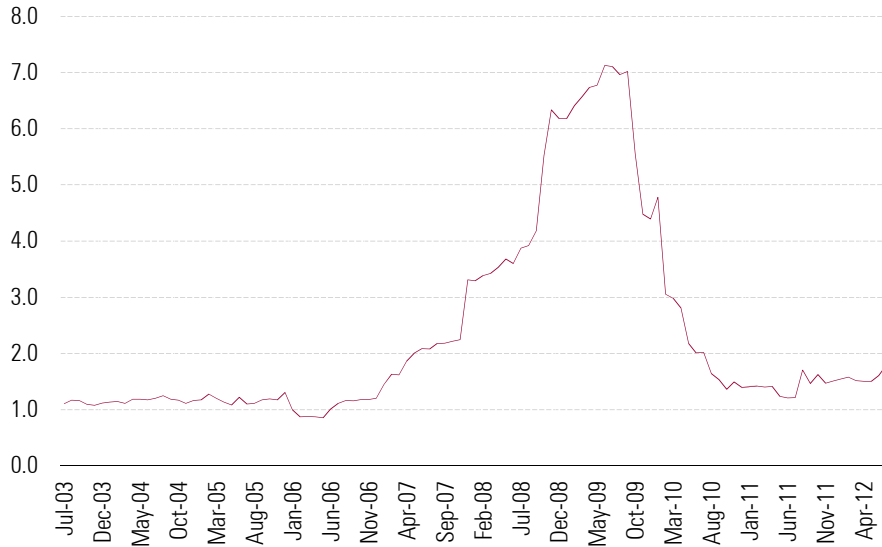
| Name | Total Return 1 Yr % | Total Return 3 Yr %pa | Total Return 5 Yr %pa |
|--|------------------------|--------------------------|--------------------------|
| Australia Equity Australia Real Estate | 20.29 | 7.20 | -11.97 |
| S&P/ASX200 AREIT Index | 21.67 | 7.92 | -11.86 |

Source: Morningstar Direct™

Another way to examine this issue is by looking at tracking error, which measures the extent to which a fund's performance differs from that of the benchmark. As Figure 5 over shows, the AREIT funds have typically had a tracking error in the order of one to two percent, except for a major spike around the time of the global financial crisis. Overweight positions in smaller, highly-leveraged trusts or unlisted property caused significant performance differences during that period, while pricing issues related to large capital raisings also somewhat distorted the index value.

Morningstar calculates tracking error on a net of fees basis. But an 0.85 percent expense ratio, the median price-tag for the funds upon which we undertake qualitative research, looms very large when the average fund's performance only differs from the index by one to two percent. In a best case scenario, that performance differential would be all on the upside, and the fund would outpace the index by 1.85 – 2.85 percent gross of fees. This would mean that fees eat up about half to one-third of the fund's alpha. In a base case scenario half the tracking error would be on the upside, and the fund would outpace the index by 0.93 - 1.43 percent gross of fees. In that situation, fees would eat between all and half the fund's alpha. This is why we believe that a smaller fee hurdle can be a substantial and sustainable competitive advantage for AREIT funds over time. Our Morningstar Analyst Ratings™, detailed in subsequent sections of this Sector Wrap-Up, largely reflect that conviction.

Figure 5: Rolling 12-Month Median Tracking Error of Morningstar Australia Real Estate Funds Category Relative to S&P/ASX200 AREIT Accumulation Index, 2003 – 12

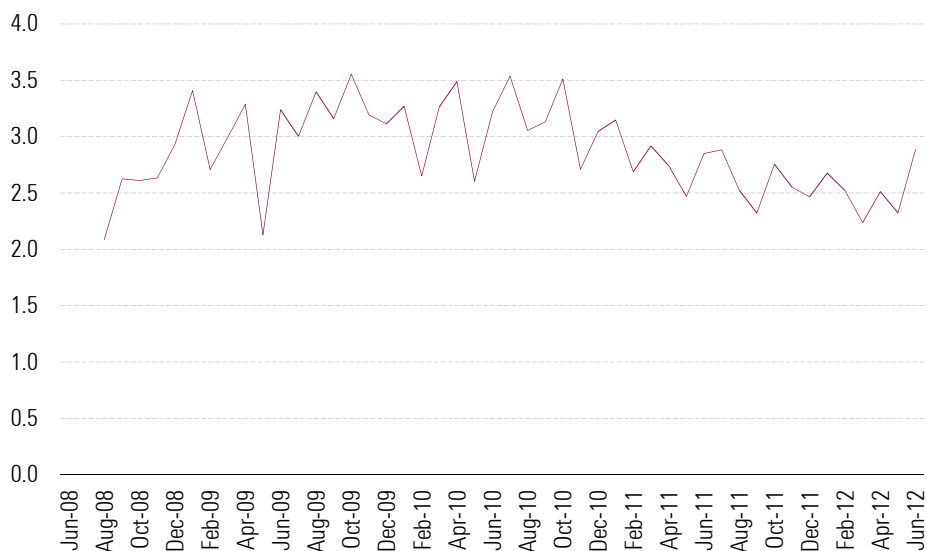


Source: Morningstar Direct™

Performance: Who's Buying Australian Real Estate Trusts?

Investors have jumped on the AREIT bandwagon over the past year. The S&P/ASX300 AREIT Accumulation Index gained 11.0 percent over the year to 30 June 2012, making it the best-performing sector over that period by a fair margin. But healthy fundamentals and attractive prices haven't been enough to appeal to most large-cap Australian share fund managers. As Figure 6 below shows, on average they've had only a two to three percent investment in the sector since mid-2008. (This incidentally bolsters the argument that a dedicated AREIT exposure can diversify a typical investor's portfolio, since if they're invested in a share fund, their exposure to the sector is likely to be very low.)

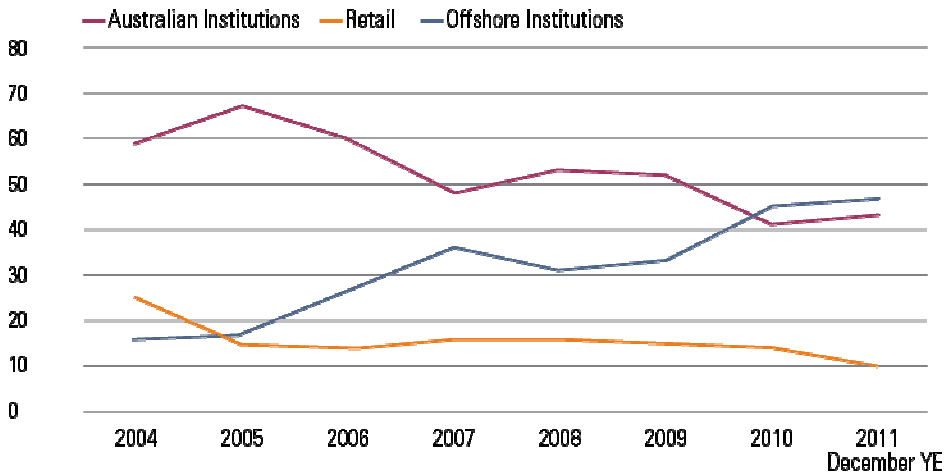
Figure 6: Average Australian Real Estate Trust Exposure Among Diversified Large-Cap Australian Share Funds, 2008 - 12



Source: Morningstar Direct™

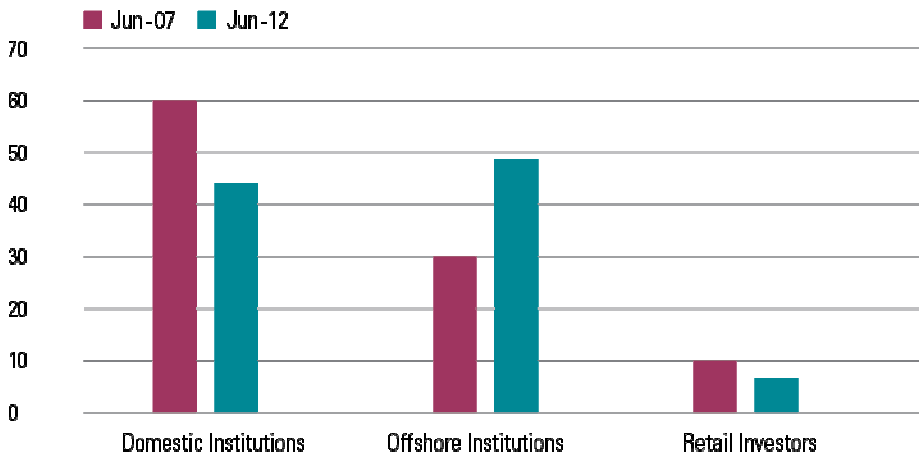
To explain their reluctance, some fund managers cite a hangover from the sector's previous indulgences and concern that the sector could easily return to that form. Others argue that much of the Australian sharemarket has been similarly undervalued, if not more so, and that other sectors offer better growth potential. Whatever the reason, fund managers' reluctance to buy listed property trust shares combined with the sector's strong performance prompts the question: who, then, is buying the sector? A look at some of the biggest trusts' share registers suggests that it has largely been offshore investors. Ownership of **Dexus Property Group** DXS and **GPT Group** GPT by Australian institutional and retail investors has declined, while offshore buyers now own nearly half of both firms (Figures 7 and 8). This gives reason for caution about the stability of capital gains. Foreign investors often have to include currency considerations in their decisions to invest in the Australian market, and increases in Australia's withholding tax could discourage foreign ownership, while both factors could foster fickle behaviour. Offshore investors also have a diverse opportunity set. If the sector began to trade consistently at a premium to net tangible assets, they may seek opportunities elsewhere. Offshore interest does however support the notion that the sector has attractive fundamentals. The income return potential should also remain strong even if capital gains abate.

Figure 7: Movements in Composition of GPT Group Share Register, 2004 - 11



Source: GPT Group

Figure 8: Changes in Composition of Dexus Property Group Share Register, 30 June 2007 and 30 June 2012



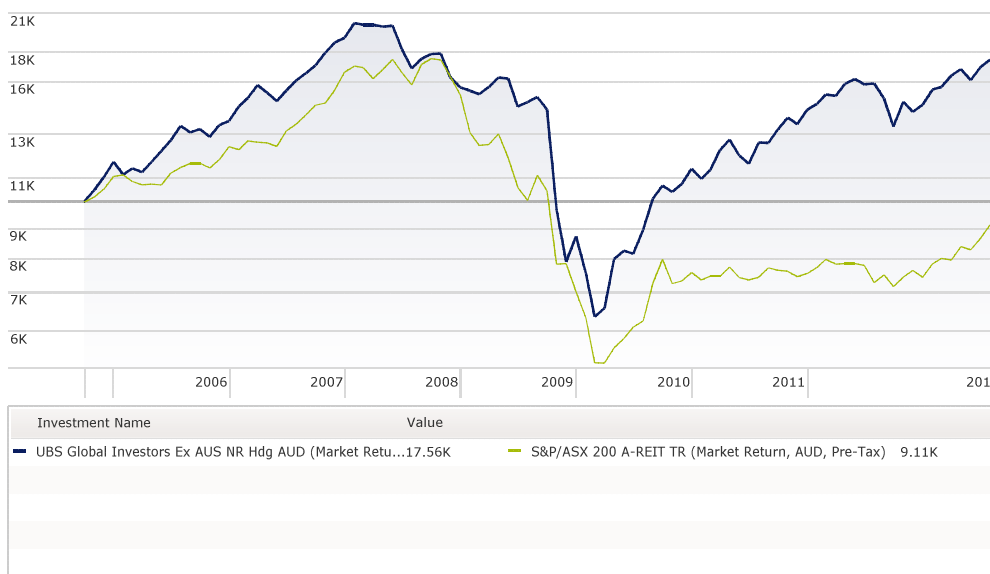
Source: Dexus Property Group

Relative Performance of Australian and Global Listed Property

Despite the attractive characteristics on offer, the performance of the Australian real estate trust sector has not been impressive compared to that of global listed property. The Australian sector felt the effects of the global financial crisis harder than most. Investors left in droves, disappointed by the share price volatility and the existence of a number of firms weighed down by excessive leverage. The S&P/ASX200 AREIT Index plummeted 53.99 percent in 2008. Although global listed property initially fared little better – the UBS Global Investors Index ex-Australia (hedged \$A) returned -43.64 percent in 2008 – the offshore trusts have subsequently enjoyed a more pronounced recovery, easily outpacing the AREITs each calendar year since then. The sluggish performance of the AREITs has been attributable in part to investor wariness about buying the recovery. Figure 9 below shows the relative performances of the Australian and global listed property indices from 2005 – 12.

The United States has been the driving force behind the offshore outperformance. This has led to the situation where at the time of writing, many market commentators consider US REITs to be overvalued, while Australia was trading at a discount of about eight percent. Commentators therefore argue that AREITs are currently positioned for greater upside potential over the medium term.

Figure 9: Relative Performance of Australian and Global Listed Property Indices, 2005 - 12



Source: Morningstar Direct

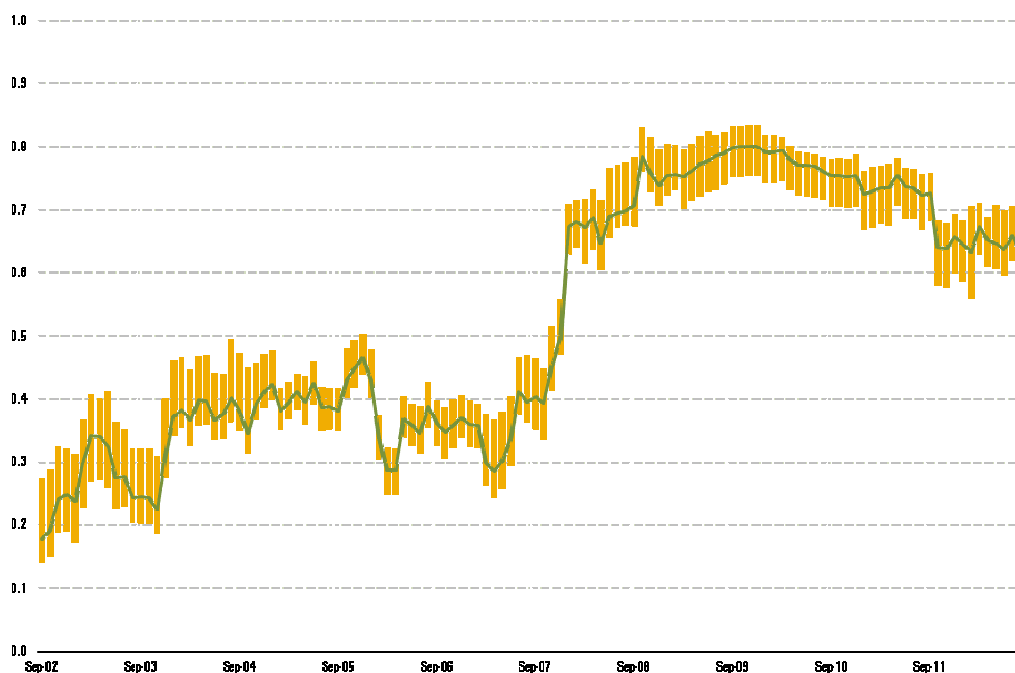
Role in Portfolio

In this Sector Wrap-Up, we have discussed a number of issues about the Australian real estate trust sector we highlighted in our previous wrap. Importantly, however, the fundamentals of the sector are now once again broadly aligned with the core principles of steady, sustainable income-focused returns with the scope for some capital upside. This makes the AREIT sector more attractive on the basis of pure fundamentals, although at the time of writing this had yet to flow through to increased investor appetite.

We believe that the asset class can play a role in a diversified investment portfolio, but in a supporting capacity rather than as part of the main ensemble. Investment is also most suitable for investors specifically targeting income or who have entered the drawdown phase. We believe that factors such as more reserved management, the adoption of more conservative payout ratios, reduced thirst for debt and lower gearing at the trust level, and the disposal of non-core assets are all positive signs for Australian listed property. The sector is also not vulnerable to the same dramatic currency swings as global listed property funds. As a result, we believe that AREITs and the funds that invest in them should exhibit a less risky returns profile over the next few years.

One of the major questions investors and advisers have to consider when constructing an investment portfolio is the correlation between asset classes. Figure 10 below shows the correlation between the universe of fund managers we research qualitatively and the wider Australian sharemarket.

Figure 10: Rolling 36-Month Correlation Between Morningstar Australian Real Estate Investment Trust Fund Analyst Coverage Universe and S&P/ASX300 Accumulation Index, 2002 - 2012



Source: Morningstar Direct™

The graph shows that AREITs had a relatively low level of correlation with the Australian sharemarket over the past decade. This relationship changed dramatically around the beginning of 2008. The level of correlation spiked as both asset classes felt the full force of the global financial crisis. The AREITs endured a greater share of the pain, because of excessive gearing and poorer-quality balance sheets. The correlation increased in 2009, both asset classes bouncing back sharply as investors embraced risk assets. Over the last two years, the correlation has receded as the AREITs' defensive qualities enabled it to hold up better than the wider Australian sharemarket.

The concentrated nature of the asset class and the lack of diversification compared with global listed property has already been addressed. Additionally, the shrinking opportunity set makes it more difficult for fund managers to differentiate themselves from each other and the index. The end result is that there is not a significant degree of differentiation when it comes to the performance track records of the majority of listed property funds, and many show returns similar to the index after fees are taken into account. This means that fund manager selection becomes more important, and the following sections of this report discuss the changes to our Morningstar Analyst Ratings™ and our Morningstar Medallists (the strategies we have designated Gold, Silver, or Bronze). As always, we strongly recommend that investors and investors read our accompanying fund research reports in detail.

Before making the decision to invest in a dedicated AREIT fund, investors and advisers should first assess the extent of any existing exposures. Diagnostic tools such as the Morningstar® Portfolio X-Ray can help determine an overall investment portfolio's exposure to the sector. Having determined that an allocation is appropriate, the question is then how much. We suggest an allocation of no more than 10.0 percent to REIT strategies, although this will depend on the individual investor's needs, objectives, and risk profile. This figure encompasses both Australian and global listed property. Investors with a more income-focused orientation may look to prefer AREITs, while those seeking a greater growth profile may lean towards global property. Any listed property allocation should be considered a relatively defensive component of a broader Australian equities allocation, or housed within a broader global listed property sleeve.

Changes to Morningstar Analyst Ratings

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 process, and our degree of relative conviction.

In this review we upgraded our Morningstar Analyst Ratings™ for two strategies, and downgraded one.

Upgrades

We upgraded **BT Property 2727** from Neutral to Silver. Peter Davidson leads an experienced three-member team which has impressed us with its insights and consistent, effective process. The strategy has produced an enviable track record, with one of the lowest base fees among active fund managers in the sector.

We also upgraded **Antares Listed Property 7050** from Bronze to Silver. Brett McNeill and Richard Colquhoun continue to impress. They voice strong opinions on the sector, take genuinely contrarian views on stocks, and demonstrate research nous. They have rewarded investors with one of the most consistent track records in the sector.

Downgrades

We downgraded **OnePath Property Securities 3202** from Neutral to Negative. Our primary criticism is with the product structure, which we think restricts the prospects for active returns while investors are charged an expensive fee for the privilege. The substandard structure inhibits the ability of underlying manager SG Hiscock to add value.

Under Review

We moved **Colonial First State Property Securities 3482** to Under Review in late 2012, following the announcement that Head of Property Securities Andrew Nicholas had departed the firm and would be replaced in early September 2012 by Stephen Hayes. Hayes has returned after six years running listed property strategies at Perennial Real Estate Investments. This was an unexpected change and with meaningful potential for uncertainty. We'll be meeting with Hayes once he has begun work at Colonial First State and will issue a full update at that time.

New Coverage

We initiated coverage of **Cromwell Phoenix Australian Listed Property 16260** with a Morningstar Analyst Rating™ of Bronze. Stuart Cartledge founded this Melbourne-based boutique in 2006 after a successful stint at Citigroup Asset Management. Cartledge is a talented manager happy to invest in small- and micro-cap names as well as off-benchmark plays, which results in a meaningfully differentiated portfolio. Although performance to date has been impressive, scalability could be an issue given the micro-cap holdings, although we believe the strategy has definite merit.

We reinitiated coverage of **UBS Property Securities 2953** with a Morningstar Analyst Rating™ of Neutral. David Scott and Patrick Barrett took control in October 2011 following UBS' acquisition of the former ING Investment Management. Scott and Barrett built solid reputations at ING and before that Credit Suisse.

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 eight of the 21 Australian listed property strategies we assessed Morningstar Medallists (Table 6 below). Only one, **Vanguard Property Securities Index 4744**, achieved the highest-possible Analyst Rating of Gold. Four strategies attained Silver, and we designated a further three Bronze.

Table 6: Morningstar Medallists – Australian Listed Property Strategies

| Ticker | Fund Manager/Strategy | Morningstar Analyst Rating™ |
|--------|---|-----------------------------|
| 4744 | Vanguard Property Securities Index | Gold |
| 7050 | Antares Listed Property | Silver |
| 17006 | APN AREIT | Silver |
| 9166 | BlackRock Indexed Australian Listed Property | Silver |
| 2727 | BT Property | Silver |
| 11242 | EQT SGH Wholesale Property Income | Bronze |
| 4778 | MLC Property Securities | Bronze |
| 5396 | Zurich Investments Australian Property Securities | Bronze |

Source: Morningstar

Appendix 1: Basic Data

| Fund Manager/Strategy | Ticker | Morningstar Analyst Rating™ | Morningstar Analyst | Start Date | Flagship Fund Assets A\$m | Assets Date | ICR %pa |
|--|--------|-----------------------------|---------------------|------------|---------------------------|-------------|---------|
| AMP Capital Listed Property | 4678 | Neutral | Kathryn Young | 9-Dec-96 | 54.18 | 31-Mar-12 | 0.97 |
| Antares Australian Listed Property | 7050 | Silver | Mark Laidlaw | 28-Feb-94 | 44.57 | 30-Jun-12 | 0.72 |
| APN AREIT | 17006 | Silver | Mark Laidlaw | 19-Jan-09 | 234.52 | 30-Jun-12 | 0.85 |
| APN Property for Income | 5072 | Neutral | Mark Laidlaw | 7-Jul-98 | 542.35 | 30-Jun-12 | 1.05 |
| APN Property for Income No. 2 | 12927 | Neutral | Mark Laidlaw | 20-May-05 | 226.17 | 30-Jun-12 | 1.08 |
| BlackRock Indexed Australian Listed Property | 9166 | Silver | Alex Prineas | 16-Jul-01 | 238.23 | 30-Jun-12 | 0.31 |
| BT Property | 2727 | Silver | Kathryn Young | 16-Apr-93 | 73.71 | 30-Apr-12 | 0.65 |
| Colonial First State FirstChoice Property Securities | 11293 | Neutral | Kathryn Young | 23-Apr-02 | 32.92 | 30-Apr-12 | 0.90 |
| Colonial First State Property Securities | 3482 | Under Review | Arne Hilke | 5-Jul-94 | 237.61 | 30-Apr-12 | 0.80 |
| Cromwell Phoenix Australian Listed Property | 16260 | Bronze | Tim Wong, CFA | 14-Apr-08 | 23.96 | 31-May-12 | 0.94 |
| EQT SG Hiscock Property Income | 11242 | Bronze | Tim Wong, CFA | 5-Mar-04 | 264.47 | 30-Jun-12 | 0.94 |
| Fidante SG Hiscock Australian Listed Property | 3283 | Neutral | Tim Wong, CFA | 15-Sep-94 | 128.03 | 30-Apr-12 | 0.85 |
| Legg Mason Australian Listed Property | 5466 | Neutral | Tim Wong, CFA | 1-Oct-98 | 93.52 | 31-Jul-12 | 0.74 |
| Macquarie Australian Listed Property | 3983 | Under Review | Mark Laidlaw | 13-Oct-95 | 63.28 | 31-Jul-12 | 0.72 |
| MLC Australian Property | 4778 | Bronze | Kathryn Young | 1-Jan-98 | 105.06 | 30-Jun-12 | 0.87 |
| OnePath Property Securities | 3202 | Negative | Tim Wong, CFA | 15-Oct-93 | 3.13 | 31-Mar-12 | 0.89 |
| Perennial Australian Listed Property | 5669 | Neutral | Mark Laidlaw | 31-Aug-94 | 66.76 | 30-Jun-12 | 0.92 |
| RREEF Paladin Property Securities | 5050 | Neutral | Kathryn Young | 1-Mar-95 | 258.0 | 30-Apr-12 | 0.89 |
| UBS Property Securities | 2953 | Neutral | Darren Cunneen | 1-Feb-93 | 198.43 | 31-Jul-12 | 0.85 |
| Vanguard Property Securities Index | 4744 | Gold | Kathryn Young | 27-Mar-98 | 2394.73 | 30-Jun-12 | 0.34 |
| Zurich Renaissance Australian Property Securities | 5396 | Bronze | Alex Prineas | 28-Feb-00 | 11.49 | 31-Jul-12 | 0.81 |

Appendix 2: Portfolio Characteristics

| Fund Manager/Strategy | Benchmark Index | No. Stocks | Max. Weight % | Min. Weight % | Expd Tracking Error %pa | Expd Turnover %pa |
|--|---|---------------|-------------------------|---------------|-------------------------|-------------------|
| AMP Capital Listed Property | S&P/ASX200 AREIT Accumulation Index | 10 – 30 | 0.40 – 2.0 times index | Zero | 2.0 – 5.0 | 25.0 – 100.0 |
| Antares Australian Listed Property | S&P/ASX200 AREIT Accumulation Index | 10 – 30 | Index +7.0 | Index –7.0 | 2.0 – 6.0 | 10.0 – 30.0 |
| APN AREIT | S&P/ASX200 AREIT Accumulation Index | 20 – 30 | 20.0 of net assets | Zero | Not targeted | 10.0 |
| APN Property for Income | S&P/ASX200 AREIT Accumulation Index | 20 – 25 | 15.0 | Zero | 3.0 – 4.0 | 10.0 – 20.0 |
| APN Property for Income No. 2 | S&P/ASX200 AREIT Accumulation Index | 20 – 25 | 15.0 | Zero | 3.0 – 4.0 | 10.0 – 20.0 |
| BlackRock Indexed Australian Listed Property | S&P/ASX300 AREIT Accumulation Index | 16 | Index +0.25 | Index –0.25 | 0.40 | 5.0 |
| BT Property | S&P/ASX300 AREIT Accumulation Index | 15 – 30 | Index +10.0 | Index –10.0 | 2.0 – 5.0 | 30.0 |
| Colonial First State FirstChoice Property Securities | S&P/ASX300 AREIT Accumulation Index | N.Ap. | N.Ap. | N.Ap. | 1.0 – 2.0 | 30.0 |
| Colonial First State Property Securities | S&P/ASX200 Property Trusts Accumulation Index | Min. 15 | 0.25 | Zero | 1.50 | 25.0 |
| Cromwell Phoenix Australian Listed Property | S&P/ASX300 A–REIT Accumulation Index | 15 – 30 | 0.20 | Zero | Not targeted | 40.0 – 60.0 |
| EQT SG Hiscock Property Income | CPI +3.0% over rolling five-year periods | 15 – 35 | 15.0 of net asset value | Zero | Not targeted | 15.0 – 20.0 |
| Fidante SG Hiscock Australian Listed Property | S&P/ASX300 AREIT Accumulation Index | 15 – 30 | Lower of 20.0 | Index –5.0 | 1.0 – 3.0 | 30.0 – 40.0 |
| Legg Mason Australian Listed Property | S&P/ASX300 AREIT Accumulation Index | 20 | Index +6.0 | Zero | 1.0 – 2.0 | 25.0 – 30.0 |
| Macquarie Australian Listed Property | S&P/ASX200 Property Trusts Accumulation Index | 25 – 35 | Index +10.0 | Index –10.0 | 2.0 – 2.50 | 25.0 – 30.0 |
| MLC Australian Property | S&P/ASX300 AREIT Accumulation Index | 50 – 60 | No maximum | Zero | 1.0 – 3.0 | 20.0 – 30.0 |
| OnePath Property Securities | S&P/ASX200 AREIT Accumulation Index | 15 – 30 | Index +5.50 | Index –5.50 | Up to 3.0 | 20.0 – 30.0 |
| Perennial Australian Listed Property | S&P/ASX200 AREIT Accumulation Index | 10 – 20 | 0.30 | Zero | 1.0 – 3.0 | 25.0 |
| RREEF Paladin Property Securities | S&P/ASX300 AREIT Accumulation Index | 10 – 30 | Index +10.0 | Index –10.0 | 0.50 – 3.0 | 50.0 – 70.0 |
| UBS Property Securities | S&P/ASX300 AREIT Index | 15 – 25 | Index +6.0 | Index –6.0 | 2.0 – 3.0 | 20.0 – 25.0 |
| Vanguard Property Securities Index | S&P/ASX300 AREIT Accumulation Index | Same as index | Index weight | Index weight | 0.10 | 2.0 – 5.0 |
| Zurich Renaissance Australian Property Securities | S&P/ASX300 AREIT Accumulation Index | 15 – 30 | Index +10.0 | Index –10.0 | 0.75 – 2.50 | 35.0 |

Appendix 3: People

| Fund Manager/Strategy | Lead Manager(s) | Appointed | Years Exp | Team Size | Avg Yrs Exp | Avg Yrs Tenure |
|--|-------------------------------|------------|-----------|-----------|-------------|----------------|
| AMP Capital Listed Property | Mark Ferguson | 2006 | 18 | 3 | 10 | 5 |
| Antares Australian Listed Property | Brett McNeill | 2006 | 6 | 2 | 14 | 4 |
| APN AREIT | Michael Doble | 2003 | 25 | 4 | 13 | 5 |
| APN Property for Income | Michael Doble | 2003 | 24 | 4 | 13 | 5 |
| APN Property for Income No. 2 | Peter Morrissey | 2008 | 14 | 4 | 13 | 5 |
| BlackRock Indexed Australian Listed Property | Michael McCorry | 2010 | 16 | 12 | 11 | 10 |
| BT Property | Peter Davidson | 2005 | 28 | 3 | 19 | 11 |
| Colonial First State FirstChoice Property Securities | Scott Tully | 2002 | 23 | 6 | 15 | 7 |
| Colonial First State Property Securities | Stephen Hayes | 2012 | 19 | 3 | 18 | 4 |
| Cromwell Phoenix Australian Listed Property | Stuart Cartledge | 2008 | 23 | 2 | 16 | 5 |
| EQT SG Hiscock Property Income | Stephen Hiscock, Grant Berry | 2001, 2002 | 21, 19 | 4 | 14 | 6 |
| Fidante SG Hiscock Australian Listed Property | Stephen Hiscock, Grant Berry | 2010, 2010 | 21, 19 | 4 | 14 | 6 |
| Legg Mason Australian Listed Property | Ashton Reid | 2006 | 20 | 3 | 20 | 11 |
| Macquarie Australian Listed Property | Bob Zenouzi | 2010 | 17 | 5 | 13 | 9 |
| MLC Australian Property | Peter Sumner | 2012 | 22 | 3 | 11 | 10 |
| OnePath Property Securities | Stephen Hiscock, Grant Berry | 2012, 2012 | 21, 19 | 4 | 14 | 6 |
| Perennial Australian Listed Property | David Kivell | 2012 | 21 | 11 | 11 | 3 |
| RREEF Paladin Property Securities | Ross McGlade | 2008 | 25 | 4 | 18 | 7 |
| UBS Property Securities | David Scott | 2011 | 27 | 2 | 17 | 4 |
| Vanguard Property Securities Index | Alla Kolganova | 2000 | 15 | 3 | 14 | 8 |
| Zurich Renaissance Australian Property Securities | Carlos Cocaro, Damien Barrack | 2005, 2005 | 27, 15 | 2 | 21 | 9 |

Copyright, Disclaimer & Other Information

Limited Financial Services Guide

Morningstar Australasia Pty Ltd ('Morningstar') ABN: 95 090 665 544, AFSL: 240892 (a subsidiary of Morningstar, Inc.) of Level 36 Australia Square 264 George Street Sydney NSW 2000 is the provider of the general advice ('the service') provided in this report. The service is provided through research including the profiling and rating of managers and products. Morningstar does not receive commissions for the service and does not charge companies to be rated. Where Morningstar provides the service through the provision of research it is remunerated by subscribers paying a subscription fee. This fee is variable depending on the subscription and will vary depending upon the individual's specific requirements, particularly to the ongoing use and distribution of the service. Subscriptions are paid as agreed with individual clients. Morningstar representatives are remunerated by salary and do not directly receive any commissions or fees. They may be eligible for an annual performance payment which is discretionary and based on reaching agreed performance levels.

Please refer to our Financial Services Guide (FSG) for more information at www.morningstar.com.au/fsg.asp

Copyright

© The material contained in this document is copyright of Morningstar, Inc., its licensors and any related bodies corporate that are involved in the document's creation. All rights reserved. Except as permitted by the Copyright Act 1968, you may not reproduce, transmit, disseminate, sell or publish this information without the written consent of Morningstar, Inc. provided that you are entitled to use the information for your internal purposes.

Trademarks

Morningstar and the Morningstar logo are registered trademarks of Morningstar, Inc.

Disclaimer

All care has been taken in preparing this report but to the extent that it is based on information received from other parties no liability is accepted by Morningstar for errors contained in the report or omissions from the report. Morningstar gives neither guarantee nor warranty nor makes any representation as to the correctness or completeness of the information presented. Morningstar determines ratings on the basis of information disclosed to Morningstar by investment product providers and on past performance of products. Past performance is no guarantee of future performance.

Disclosure

If you wish to obtain further information regarding our services, we recommend you visit www.morningstar.com.au. Morningstar may provide product issuers with research or consulting services for the standard fee. In relation to consulting services, Morningstar may provide product issuers with advice in relation to asset allocation information. Morningstar uses quantitative data and qualitative research opinions as its methodology when preparing ratings opinions and research in respect of financial service providers. The methodology weighs the relative strengths and weaknesses of each manager/product relative to its peers.