Prepared by: FSIU

Source: Bloomberg, Admiral Investment

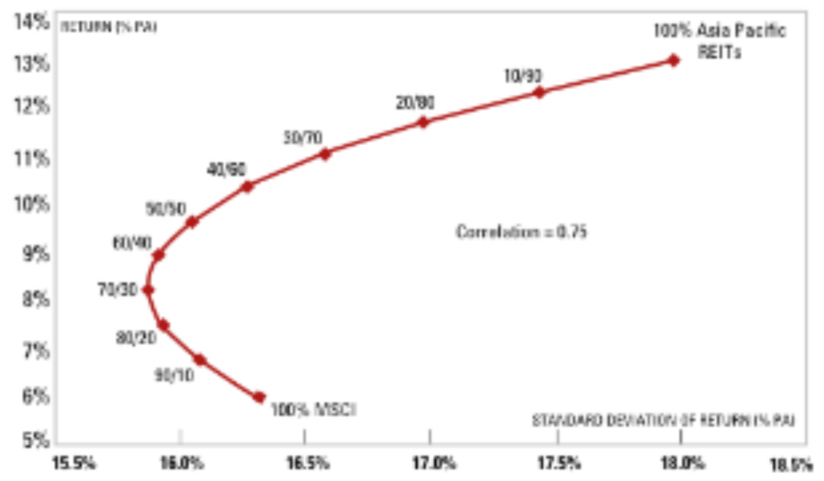

Figure 1. Asia Pacific REITs vs MSCI Pacific
Sep 2001 to Dec 2014

APAC REITs coming of age

Admiral Investment

Admiral's flagship fund invests in Asia Pacific REITs. Despite the huge volatility that the Hong Kong and China stock markets experienced in June 2015, the Thompson Reuters / GPR/ APREA REIT index has dropped by about 2%. In a recent white paper, we have analysed the long term performance of Asia Pacific REITs and have shown that Asia Pacific REITs diversify risks from portfolios of Asian equities, Global REITs, and Australian REITs. Admiral Investment believes that an additional investment in standalone Asia Pacific REIT products can potentially increase long term returns and lower return volatility in multiple sample portfolios.

Asia Pacific REITs started in 2001, when Japan listed the first Asian REIT. Since then, the number of REITs have grown to about 165; and the overall market capitalisation of Asia Pacific REITs have risen from US$ 6 billion in 2000 to US$ 263 billion at the end of 2014. By market capitalisation, about one third of REITs are listed in Australia, one third in Japan, and the remaining third in Singapore, Hong Kong, Taiwan, Malaysia and Thailand.

Asia Pacific REITs have consistently been a top performer among the group. Asia Pacific REITs have achieved a since inception total return of 12.35%, which was higher than all the alternatives listed above. Equities (MSCI) returned 4.41%, bonds 5.71%, Europe REITs 10.01%, US REITs 9.16% and Australian REITs 5.49%. Furthermore, Asia Pacific REITs have been the second best performer, after US REITs, in the last 5 and last 10 years. In 2014, Asia Pacific REITs have outperformed equities, bonds, and Europe REITs. The chart below shows the respective performance of the TR/GPR/APREA Investable 100 REIT Index, the MSCI Pacific Index, the JPM Global Aggregate Bond Index, the EPRA Developed Europe Index, the NAREIT REITs Index, and the ASX 200 A-REIT Index.

To test the diversification benefits of Asia Pacific REITs, we simulated the historical performance if Asia Pacific REITs are added to a portfolio of Asian equities. The results are shown below. Adding Asia Pacific REITs to Asian equities lowers the overall risks of the portfolio and adds to overall return. For example, from September 2001 to December 2014, a 100% Asian equities portfolio had a return of 6% and a standard deviation of 16.4%. Putting 20% of the portfolio in Asia Pacific REITs, however, would have increased the overall return to 7.5% and lowered the standard deviation to 15.9%. In fact, the minimum risk point in this portfolio is 70% Asian equities / 30% Asia REITs.

In addition, we have done similar portfolio studies by comparing Asia Pacific REITs to Global REITs and comparing Asia-only REITs to Australian REITs. The results are consistently in that Asia Pacific REITs provide a diversification benefit to these other portfolios. FS

CPD Questions 13–15

13. In June 2015, the Thompson Reuters/ GPR/APREA REIT index dropped by:

a) 1%
b) 1.5%
c) 2%
d) 3%

14. In 2001 Japan listed the first Asia pacific REIT, how many Asia Pacific REITs exist in the market now?

a) 100
b) 165
c) 175
d) 190

15. Asia Pacific REITs reduces risk and adds to return when combined with Asian Equities:

a) True
b) False