

Enhancing your portfolio returns with property

Listed property is not new to Australia but has evolved as an asset class that holds a solid place in investment portfolios. Today, investors are increasingly turning to Australian listed property to balance investment risks and generate income from a range of reliable, well-established assets.

Investing in property

Property is one of the oldest asset classes in existence. The reasons for its enduring popularity are clear. Ownership of a building and the collection of rents can provide a steady source of income, which can be important in times of market stress. At other times, demand for property assets can see its valuation increase, providing a source of investment growth. The combination is attractive and explains why people from Ancient Rome through to 21st century Australia have been attracted to property.

However, while property is an attractive investment, actually buying a building presents a problem for potential investors. An investment usually involves large amounts of money which can be tied up for a long time. This problem is overcome through investing in listed property securities known as Australian Real Estate Investment Trusts, or A-REITs.

Australia represents one of the best established REIT markets in the world, with the first of its kind – General Property Trust – listed in 1971. Many countries have since followed this model to enable creation of property portfolios within a single security listed and traded on stock exchanges.

Investing in the A-REIT market offers:

- 1 **Access to a diverse range of property investments** without tying up huge amounts of capital. Investments can include office buildings, industrial estates, shopping malls, residential developments and niche areas such as storage, childcare and aged care centres. A-REITs available for investment include Scentre Group – owner and operator of Westfield centres, Arena REIT a leading operator of childcare centres, and GPT Group – a company with diversified exposure to commercial offices, industrial parks, logistics and shopping centres.*
- 2 **Access to your money** – unlike investments in direct property, listed property securities are generally traded and priced on the Australian Securities Exchange in real time. Investors can easily adjust the size of an investment or sell their entire holding on the day.
- 3 **The potential for a regular and consistent income stream** with a different risk/return profile to other income-generating investments. Income can be linked to inflation through structured lease terms and rental reviews. A-REITs' defensive characteristics have been evidenced in past market selloffs like the Asian crisis (1997-98) and the tech wreck (2001-02), where A-REITs outperform the broader Australian share market by 9% and 31%, respectively.**

But not all property is created equal. Some buildings are good investments, others are not, and it can take an expert to differentiate between the two. This is overcome by employing an experienced team of property investors to closely analyse and select the best opportunities.

The Australian listed property market[^] provides access to over...



680 Industrial sites



380 Office buildings



460 Shopping centres



540 Childcare facilities

\$150bn
in assets

[^]A representation of the market as at November 2018. Source: Pental. *These A-REITs may not be represented in Pental Portfolios.

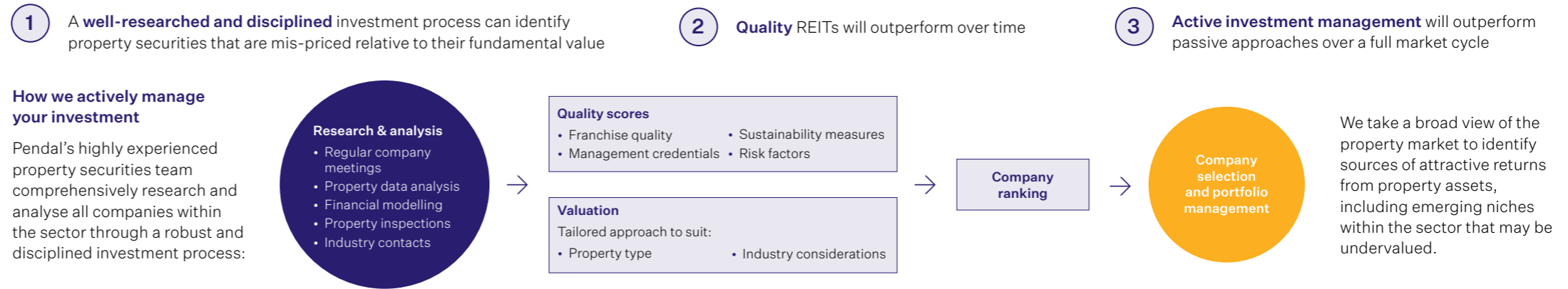
**Based on a performance comparison of the S&P/ASX 200 AREIT Accumulation Index and the S&P/ASX 200 ex-AREIT Accumulation Index over the relevant periods. The Asian crisis covers the year to June 1998 and the tech wreck covers the period from March 2001 to September 2002.

Success in property investment requires active management

A property's ability to generate sustainable income and maintain an attractive valuation depends on a range of factors including population concentration and trends, supporting infrastructure, building age and structure, the quality of management, community and business needs, and complementarity with surrounding developments, among other factors. In addition, valuation of a property needs to be considered within the context of both property and macroeconomic trends globally.

Long-term successful property investing therefore requires experience, expertise, and constant research to understand which REITs offer the best opportunities at a given point in time, to position a property portfolio accordingly.

Pendal's Listed Property Securities investment philosophy is based on the following beliefs:









Property's role in a portfolio

Property's combination of characteristics means that it can respond differently to a given environment compared to other asset classes like industrial shares and fixed income. This means it can act as a diversifier – an asset which can improve a portfolio's risk profile and result in enhanced returns over time.

A-REITs are well placed to generate a mix of income and asset growth through the many strategies at their disposal. Brownfield development, operational leverage, re-zoning and yield enhancement are just a few of the many strategies employed by A-REITs to generate income and growth. Through active research and portfolio management, an A-REIT portfolio can take advantage of many opportunities across the diverse property landscape.

Domestic real estate sector – overview

Office	Industrial	Retail
 <ul style="list-style-type: none"> Medium- to large-scale office buildings in and around major cities. Typically features large, stable tenants with long leases 	 <ul style="list-style-type: none"> Manufacturing and logistics facilities including industrial parks, warehouses and factories. Typically longer duration tenancies, given the capital intensive nature of industrial operations and formation of hubs with related businesses. 	 <ul style="list-style-type: none"> Shopping malls and retailing outlets, ranging in size and amenity. Large number of smaller tenancies, typically combined with anchor tenants with established brands and market presence.
Social	Hotel & Leisure	Diversified
 <ul style="list-style-type: none"> Specialty property developments ranging from childcare centres, caravan parks, retirement living and medical services.. Smaller scale, purpose-built facilities supported by strong demographic trends and structural supply shortages 	 <ul style="list-style-type: none"> Recreational facilities including hotels, cinemas and theme parks. Close linkages with tourism and economic cycles. 	 <ul style="list-style-type: none"> Large operators and owners of mixed use property. Natural diversification of property exposure across property sub-types.

Case study: Finding quality and value at an early stage

A key differentiator of our investment approach is our focus on identifying early opportunities. An example of this approach coming to fruition is our investment in National Storage REIT (NSR).

This A-REIT was formed in December 2013 and represents Australia's first publicly listed, internally managed and fully integrated owner and operator of self-storage centres in Australia and New Zealand. The business represents one of Australia's largest self-storage providers, offering tailored self-storage solutions to over 40,000 residential and commercial customers at more than 127 centres across Australia and New Zealand.

In 2013 the team assessed the company's business model, visited existing storage centres and reviewed occupancy dynamics. Based on guidance at the initial public offering, management was targeting an 8% yield and 4% growth, with expectations of higher occupancy and better asset utilisation to drive its future valuation higher. Pendal's Listed Property Securities team were also supportive of management credentials and governance structures. The team made an investment in NSR which reached its valuation target within a year. We sold the position and repurchased the company in 2018 at an attractive valuation.

Adherence to valuation discipline is paramount in property securities, while identifying opportunities that are overlooked by many mainstream property funds can deliver value.

Note: This is an example of a single investment and does not reflect the actual returns of any Fund or complete portfolio.

“Our approach strikes what we believe to be the right balance between targeting predictable income and defensive capital growth for our investors. We understand the importance of listed property in a mixed asset portfolio, which comes to the fore in times of significant volatility in capital markets”

Peter Davidson, Head of Listed Property, Pendal

Visit pendalgroup.com to find out more about our listed property products and the latest insights into investing in the sector.

The Pendal difference

- ✓ **Our strategy looks to add value** at all stages of the market cycle
- ✓ **Our strategy comes to the fore in times of stress**, reflecting a bias towards quality.
- ✓ **We take a conservative approach to investing**, taking smaller positions in a larger range of real estate companies.
- ✓ **We employ an integrated approach** to assessing environmental, social and governance (ESG) factors – issues that are particularly relevant to the development and management of property assets. We are active stewards of our clients' money and hold our investee companies to account.
- ✓ **Unrivalled experience** – Pendal has one of the longest track records in the market in managing dedicated listed property securities portfolios. Our highly respected Listed Property Securities team draws on the resources and expertise of our wider Australian equities and fixed income teams. This level of proprietary expertise can provide additional insight into areas such as operating conditions for retail chains or bank funding conditions.

Meet the team

Pendal's listed property securities portfolios are jointly managed by Peter Davidson and Julia Forrest – two of Australia's leading and most recognised property professionals. Peter and Julia possess a broad range of complementary skills and have a proud working relationship spanning more than a decade.



Peter Davidson
Head of Listed Property

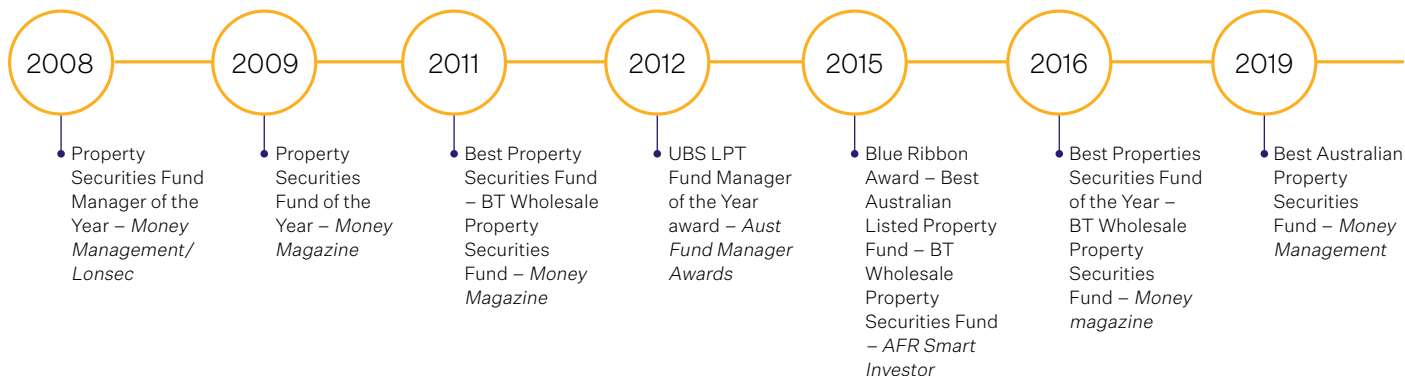
Years at Pendal 24yrs
Industry experience 34yrs



Julia Forrest
Portfolio Manager

Years at Pendal 15yrs
Industry experience 25yrs

Awards for the Pendal Listed Property Team and the funds they manage



About Pendal

Pendal Group Limited (Pendal), known as BT Investment Management until May 2018, is ASX-listed (ASX:PDL) with \$100.9 billion in funds under management as at 31 March 2019.

Pendal is a diversified global investment manager with offices in Sydney, London, New York, Boston and Singapore.

PENDAL

Pendal offers over 50 investment strategies including equities, diversified, property, cash and fixed income products. At 31 March 2019 Pendal employees were the largest single shareholder group, holding approximately 13% of total PDL shares on issue, providing strong alignment between employees and the company's growth and success.

What you should know before you invest

All investments carry risk. The likely investment return and the risk of losing money is different for each managed investment scheme as different strategies carry different levels of risk depending on the underlying mix of assets that make up each fund. Those assets with potentially the highest long term return (such as shares) may also have the highest risk of losing money in the shorter term. While we use our expertise to manage risk, risks cannot be completely eliminated. The value of an investment will go up and down, returns will vary and are not guaranteed, and future returns may be different from past returns.

An investment in the Pendal Property Securities Fund involves risks including:

Market risk: the risk that factors affecting one or more countries that can influence the direction and volatility of an overall market, as opposed to security-specific risks;

Security-specific risk: risks associated with an individual security;

Liquidity risk: the risk that an asset may not be converted to cash in a timely manner;

Interest rate risk: the risk associated with adverse changes in asset prices as a result of interest rate movements; and

Valuation risk: the risk that the value of an investment in a less active or liquid market is lower than what is reflected in the Fund's unit price.

Please read the Fund's Product Disclosure Statement (PDS) for a detailed explanation of each of these risks.

For more information call us on 1800 813 886
or visit pendalgroup.com

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