PENDAL

Pendal Monthly Commentary

Pendal Australian Listed Property Portfolio

January 2020

Market commentary

The AREIT index was up 6.4% in January, outperforming the broader market by 140bp. The sector was led higher by falling bond yields. The 10-year bond yield was down 42bp, closing at 0.925%. Over the past 12 months AREITs have provided a total return of 19.6%, underperforming the broader market by 510bp. Globally REITs were -0.4% for the month with Australian REITs the best performers both for the month (+6.4%) and for the year (19.6%) rolling.

Industrial REITs were the best performers in January (+11.2%) and Retail REITs were the worst (-1.5%). Outperformers were National Storage REIT (+17.2%) driven by a confidential, non-binding offer from Gaw Capital; Charter Hall Group (+16.1%) driven by increasing FUM/earnings upgrades and accretive acquisitions; and Goodman Group (+11.4%) reversing the previous month's underperformance. The worst performers were Unibail Rodamco Westfield (-8.4%) driven by continuing soft retailing conditions in UK/US and Scentre Group (+0.8%), largely as a result of a number of retailer insolvencies announced over the month.

During the month Centuria Capital announced the acquisition of a NZ real estate fund manager for $174m. The acquisition was partially funded by an $80m capital raising. Also during the month Starwood made an all-cash offer to acquire Australian Unity Office Fund for $2.98, a 4.6% premium to AOF's NTA and an inferior bid to the Charter Hall/Abacus unsuccessful bid in 2019.

News-flow in Australia was dominated by bushfires and the Coronavirus originating in central China which led to a number of travel restrictions. Despite this, the Australian stock market was up 5%, the best performance against all major equity markets. The bad news was good for bonds with both US (-40bp) and Australian 10-year bond yields (-42bp) lower. In Australia employment increased by 40k positions with the unemployment rate falling 10bp to 5.2%. Retail sales were strong +0.9% and house prices were +1%. 4Q CPI was +0.7% and +1.8% Y/Y, below the RBA's 2-3% target band.

Portfolio overview

Australian Listed Property Portfolio	
Investment strategy	The strategy employs a bottom up, fundamental approach to build a diversified portfolio of Australian listed property shares.
Investment objective	The objective of the Model Portfolio is to outperform the S&P/ASX 300 A-REIT (Sector) (TR) Index on a rolling 3 year period.
Benchmark	S&P/ASX 300 A-REIT (Sector) (TR)
Number of stocks	8-15 (12 as at 31 January 2020)
Sector limits	Cash 2-10%

Top 10 holdings

Code	Name	Weight
GMG	Goodman Group	20.49%
SCG	Scentre Group	11.75%
DXS	Dexus Property Group	11.52%
MGR	Mirvac Group	11.20%
SGP	Stockland Trust Group	10.13%
GPT	GPT Group	6.35%
CHC	Charter Hall Group	5.55%
VCX	Vicinity Centres	4.94%
CLW	Charter Hall Long Wale Reit	4.01%
SCP	Shopping Cent Austl Prop	3.83%

Source: Pendal as at 31 January 2020

Top 5 overweights versus S&P/ASX 300

Code	Name	Weight
GMG	Goodman Group	3.21%
CQR	Charter Hall Retail REIT	2.44%
CLW	Charter Hall Long Wale Reit	2.26%
SCP	Shopping Cent Austl Prop	1.88%
DXS	Dexus Property Group	1.54%

Top 5 underweights versus S&P/ASX 300

Code	Name	Weight
SCG	Scentre Group	-3.13%
URW	Unibail-Rodamco-Westfield CDI (not held)	-2.24%
GPT	GPT Group	-2.02%
CMW	Cromwell Property Group (not held)	-1.67%
BWP	BWP Trust (not held)	-1.44%

Source: Pendal as at 31 January 2020

Performance

	1 month	3 month	6 month	1 year	2 Year	3 Year	Since Inception*
Pendal Australian LPT	7.02%	4.74%	4.02%	20.70%	17.28%	13.82%	10.70%
S&P/ASX 300 A-REIT (Sector) (TR)	6.30%	4.10%	4.00%	19.95%	16.47%	13.60%	10.56%
Active return	**0.72%**	**0.64%**	**0.01%**	**0.76%**	**0.81%**	**0.22%**	**0.14%**

Source: Pendal as at 31 January 2020
*Since Inception - 17 March 2015
Performance returns are pre-fee. Investors should contact their platform provider for applicable fee rates.
Past performance is not a reliable indicator of future performance

Top 5 contributors - monthly

Code	Name	Value Added
URW	*Unibail-Rodamco-Westfield CDI (not held)*	*0.38%*
SCG	*Scentre Group*	*0.18%*
GMG	Goodman Group	0.16%
CHC	Charter Hall Group	0.11%
CQR	Charter Hall Retail REIT	0.09%

Top 5 detractors - monthly

Code	Name	Value Added
NSR	*National Storage Reit (not held)*	*-0.12%*
CLW	Charter Hall Long Wale Reit	-0.07%
IAP	Investec Aust Property Fund	-0.02%
CIP	*Centuria Industrial Reit (not held)*	*-0.02%*
GPT	*GPT Group*	*-0.02%*

Top 5 contributors - 1 year

Code	Name	Value Added
CHC	Charter Hall Group	0.62%
SCP	Shopping Cent Austl Prop	0.42%
URW	*Unibail-Rodamco-Westfield CDI (not held)*	*0.42%*
VCX	*Vicinity Centres*	*0.29%*
SGP	Stockland Trust Group	0.22%

Top 5 detractors - 1 year

Code	Name	Value Added
CLW	Charter Hall Long Wale Reit	-0.29%
INA	*Ingenia Communities Group (not held)*	*-0.23%*
GPT	*GPT Group*	*-0.21%*
AVN	*Aventus Retail Property Fund (not held)*	*-0.18%*
CIP	*Centuria Industrial Reit (not held)*	*-0.11%*

Source: Pendal as at 31 January 2020
Underweight positions are in italics.

Strategy performance and outlook

The model outperformed in January. The underweight in retail was beneficial with both Unibail-Rodamco-Westfield and Scentre Group doing poorly. The overweight in Goodman Group was also beneficial.

The AREIT sector is now priced on an FY20 dividend yield of 4.5%, a PE ratio of 19.6 times and a 55.1% premium to NTA, well above its long-term average. Given the continuing low bond rate environment and large amounts of capital to be deployed by both offshore and domestic investors it is now likely office and industrial cap rates will compress further from current levels. However, non-dominant discretionary malls with high specialty occupancy costs are actually expected to fall in value in the short-to-medium term. Balance sheets are stable with sector gearing at 26%.

New stocks added and/or stocks sold to zero during the month

No new stocks added or sold during the month.

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key account manager or visit **pendalgroup.com**

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