

Pendal Monthly Commentary

Pendal Australian Listed Property Portfolio

October 2020

Market commentary

The Australian Real Estate Investment Trusts index was down 0.4% in October, underperforming the broader market by 230bp. Year rolling, AREITs are down 18%, underperforming the broader market by 9.9%. Globally REITs were down 3.2% for the month (USD terms) and down 21.5% year to date.

The best performing REITs for the month included Unibail Rodamco Westfield (+19.8%) following a backlash by a group of unitholders against a proposed €3.5 billion rights issue; Shopping Centres Australia (+8.4%) following a very positive quarterly update (81% cash collection for Sept 20) and providing DPS guidance for 1H21; and GPT Group (+3.3%) with overall cash collection running at 90% for the Sept quarter.

Worst performers included Vicinity Centres (-12%) and Charter Hall Long WALE (-5%) on no news.

A number of REITs gave quarterly updates showing improving cash collection and improvement of trading conditions outside of Victoria.

Dexus Group reported cash collection at 94% and provided FY21 DPS guidance of 50.3c (flat on FY20), but office occupancy slipped 110bp to 95.4%. Mirvac Group reported cash collection at 82% and residential pre-sales +40% for the September quarter. But retail sales were down 7.8%, office occupancy was down 90bp to 97.4% and there was no DPS guidance. GPT Group reported cash collection at 90% and retail sales (ex Vic) +0.8% for the Sept quarter (vs pcp) but gave no guidance. Stockland Group reported net deposits on lot sales of 1799, the highest level in three years. Retail sales were +3.6% and rent collection was 81% but there was no DPS guidance. Centuria Group raised \$100 million to acquire a Visy facility (with 20-year WALE) in Auckland on a 4.5% cap rate for an unlisted fund. Home Consortium announced it would spin off a new “daily needs” REIT and raise \$300 million in new equity.

Data was mostly positive with national house prices +0.2% (+4.4% Y/Y), home loans +12.6% for the month (+19.3% Y/Y) and both business and consumer confidence continuing to improve (+0.4 and 11.9% respectively). US bond yields rose 17bp to 0.85% and Australian bond yields were +4bp to 0.83% on the back of Q3 CPI +0.4% (+1.6% Y/Y). The \$A was weaker, falling 1.1% vs the USD.

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 (15 as at 31 October 2020)
Sector limits	Cash 2-10%
Dividend Yield	4.63% [#]

Top 10 holdings

Code	Name	Weight
GMG	Goodman Group	26.79%
DXS	Dexus Property Group	9.11%
MGR	Mirvac Group	8.26%
SCG	Scentre Group	7.60%
CHC	Charter Hall Group	7.49%
SGP	Stockland Trust Group	6.87%
GPT	GPT Group	6.63%
VCX	Vicinity Centres	6.13%
CLW	Charter Hall Long Wale Reit	4.95%
SCP	Shopping Cent Austl Prop	3.86%

Source: Pendal as at 31 October 2020

Top 5 overweights versus S&P/ASX 300

Code	Name	Weight
CLW	Charter Hall Long Wale Reit	3.11%
CHC	Charter Hall Group	2.41%
VCX	Vicinity Centres	2.01%
CQR	Charter Hall Retail REIT	1.82%
SCP	Shopping Cent Austl Prop	1.66%

Top 5 underweights versus S&P/ASX 300

Code	Name	Weight
SCG	Scentre Group	-2.04%
BWP	BWP Trust (not held)	-1.73%
NSR	National Storage Reit (not held)	-1.49%
CMW	Cromwell Property Group (not held)	-1.46%
SGP	Stockland Trust Group	-1.25%

Source: Pendal as at 31 October 2020

[#]The Portfolio's dividend yield represents the weighted average 12-month forward-looking dividend yield of the portfolio holdings (excluding cash), as at the date of the Factsheet. Each individual security's dividend yield is calculated using market consensus Dividend Per Share (DPS) before tax and franking credits, collated by Pendal and divided by the closing market price of the security as at the date of the Factsheet. The portfolio dividend yield therefore is only an estimate, and does not reflect the actual returns of the Fund, which will be affected by market movements in the price of individual securities, the returns on other assets such as cash holdings and variances of individual security's actual dividends from the forecasted DPS.

Performance

	1 month	3 month	6 month	1 year	3 year	since inception*
Pendal Australian LPT	-0.34%	7.21%	15.03%	-11.88%	5.74%	5.91%
S&P/ASX 300 A-REIT (Sector) (TR)	-0.28%	6.41%	13.24%	-17.18%	3.25%	4.75%
Active return	-0.06%	0.79%	1.80%	5.29%	2.49%	1.16%

Source: Pendal as at 31 October 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
VCX	Vicinity Centres	0.14%
SCP	Shopping Cent Austl Prop	0.13%
SCG	<i>Scentre Group</i>	<i>0.09%</i>
GMG	<i>Goodman Group</i>	<i>0.06%</i>
CQR	Charter Hall Retail REIT	0.05%

Top 5 contributors - 1 year

Code	Name	Value added
<i>URW</i>	<i>Unibail-Rodamco-Westfield CDI (not held)</i>	<i>1.29%</i>
GMG	<i>Goodman Group</i>	<i>1.20%</i>
SCG	<i>Scentre Group</i>	<i>0.89%</i>
VCX	Vicinity Centres	0.68%
CHC	Charter Hall Group	0.40%

Source: Pendal as at 31 October 2020

Underweight positions are in italics.

Top 5 detractors - monthly

Code	Name	Value added
CLW	Charter Hall Long Wale Reit	-0.15%
<i>URW</i>	<i>Unibail-Rodamco-Westfield CDI</i>	<i>-0.10%</i>
<i>GPT</i>	<i>GPT Group</i>	<i>-0.05%</i>
IAP	Investec Aust Property Fund	-0.05%
<i>CMW</i>	<i>Cromwell Property Group</i>	<i>-0.05%</i>

Top 5 detractors - 1 year

Code	Name	Value added
VVR	Viva Energy Reit	-0.35%
<i>SGP</i>	<i>Stockland Trust Group</i>	<i>-0.30%</i>
<i>BWP</i>	<i>BWP Trust (not held)</i>	<i>-0.28%</i>
<i>RFF</i>	<i>Rural Funds Group (not held)</i>	<i>-0.26%</i>
<i>NSR</i>	<i>National Storage Reit (not held)</i>	<i>-0.21%</i>

Strategy performance and outlook

The portfolio was marginally behind the index in October. Key contributions came from the underweight in retail malls except in the case of Unibail-Rodamco-Westfield, which dragged. The position in Charter Hall also detracted.

The AREIT sector is priced on an FY21 dividend yield of 4.1%, a 320bp spread over 10-year bonds, well above its LT average of 200bp. We expect AREIT earnings to slowly recover and dividends to resume in FY21 as State borders reopen, business recovers and activity broadly picks up. NTAs are expected to soften in the short term with discretionary mall values likely to come under pressure. Gearing across the sector is relatively low at 27%. We expect extraordinarily low interest rates to provide support for asset values.

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

No new stocks added or sold during the month.

For more information contact your
key account manager or visit pendalgroup.com

PENDAL

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Performance figures are shown gross of fees and are calculated by tracking the value of a notional portfolio. Past performance is not a reliable indicator of future performance.

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