PENDAL

Pendal Monthly Commentary

Pendal Australian Listed Property Portfolio

March 2021

Market commentary

The Australian Real Estate Investment Trusts index was up 6.6% in March – a strong rebound that saw AREITS outperform the broader equity market by almost 4%.

AREITs are continuing to shake off post-COVID weakness when landlords were required to provide crucial rent support for commercial tenants.

A quick reference to the performance table below highlights the stellar recovery in the REIT sector over the past year.

One-year returns are up 45%, outperforming the broader market by 7%. Globally REITs (USD terms) were up 4.3% for the month and up 31% year rolling. Australia was the best-performing market (+45%) and Europe (+22%) the worst.

Best-performing REITs for the period included Unibail Rodamco (+14.8%) which was driven by corporate appeal with potentially hostile acquirers building a stake in the company. Centuria Industrial (+14%) lifted on surging demand for industrial property assets in Australia and Mirvac (+12%) was driven by strong confidence in residential profits and firming office demand.

Worst-performing REITS were all the Australian retail names including Scentre Group (-2.1%) and Vicinity (+0.9%).

Capital markets were quiet in the AREIT sector. There were no new equity capital raisings but some well-directed buy-back activity from Dexus, GPT and Growthpoint. Equally the AREITS continue to access long-term, low-interest debt that will help accrete earnings and boost shareholder returns over the longer term.

Meanwhile asset markets are holding up well despite concerns about the economy slowing as COVID support measures are withdrawn. Office assets are transacting at book value, industrial assets are trading well above previous valuations and even in the retail sector we are seeing increasing demand for assets up to $150 million in value.

Data continues to be strong in Australia with unemployment steady at 5.8%, retail sales up 5.2% in February and employment growing at a steady 89K extra full-time jobs.

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 (14 as at 31 March 2021)
Sector limits	Cash 2-10%
Dividend Yield	4.42%#

Top 10 holdings

Code	Name	Weight
GMG	Goodman Group	22.89%
SGP	Stockland Trust Group	10.21%
DXS	Dexus Property Group	9.12%
SCG	Scentre Group	9.02%
MGR	Mirvac Group	7.21%
CHC	Charter Hall Group	6.91%
GPT	GPT Group	5.67%
SCP	Shopping Cent Austl Prop	4.60%
VCX	Vicinity Centres	4.42%
CLW	Charter Hall Long Wale Reit	4.33%

Source: Pendal as at 31 March 2021

Top 5 overweights versus S&P/ASX 300

Code	Name	Weight
SCP	Shopping Cent Austl Prop	2.47%
CLW	Charter Hall Long Wale Reit	2.42%
CQR	Charter Hall Retail REIT	2.31%
CHC	Charter Hall Group	2.19%
IAP	IAPF Group	2.12%

Top 5 underweights versus S&P/ASX 300

Code	Name	Weight
SCG	Scentre Group	-2.49%
WPR	Waypoint Reit (not held)	-1.55%
BWP	BWP Trust (not held)	-1.52%
NSR	National Storage Reit (not held)	-1.47%
GPT	GPT Group	-1.38%

Source: Pendal as at 31 March 2021

#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	6.23%	-0.19%	12.73%	44.36%	10.58%	7.67%
S&P/ASX 300 A-REIT (Sector) (TR)	6.30%	-0.56%	12.61%	45.37%	7.92%	6.54%
Active return	**-0.06%**	**0.37%**	**0.12%**	**-1.01%**	**2.67%**	**1.13%**

Source: Pendal as at 31 March 2021
*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
SCG	*Scentre Group*	*0.23%*
CHC	Charter Hall Group	0.05%
CIP	Centuria Industrial Reit	0.05%
HMC	*Home Consortium (not held)*	*0.05%*
RFF	*Rural Funds Group (not held)*	*0.04%*

Top 5 detractors - monthly

Code	Name	Value Added
URW	*Unibail-Rodamco-Westfield CDI (not held)*	*-0.07%*
CQR	Charter Hall Retail REIT	-0.07%
CLW	Charter Hall Long Wale Reit	-0.06%
ARF	Arena Reit	-0.06%
GMG	*Goodman Group*	*-0.04%*

Top 5 contributors - 1 year

Code	Name	Value Added
VCX	*Vicinity Centres*	*1.20%*
GMG	*Goodman Group*	*1.07%*
CHC	Charter Hall Group	0.57%
CMW	*Cromwell Property Group (not held)*	*0.57%*
BWP	*BWP Trust (not held)*	*0.41%*

Top 5 detractors - 1 year

Code	Name	Value Added
SCG	*Scentre Group*	*-0.98%*
CLW	Charter Hall Long Wale Reit	-0.95%
DXS	Dexus Property Group	-0.61%
SCP	Shopping Cent Austl Prop	-0.58%
SGP	Stockland Trust Group	-0.47%

Source: Pendal as at 31 March 2021
Underweight positions are in italics.

Strategy performance and outlook

The portfolio had a strong month although it finished very slightly behind the index. The underweight in Scentre Group made a strong contribution as did positions REIT manager Charter Hall Group and the Centuria Industrial REIT. This was offset by not owning Unibail-Rodamco-Westfield and by the overweight in Charter Hall Retail REIT.

The AREIT sector is priced on an FY22 dividend yield of 4.3%, a 240bp spread over 10-year bonds, above its LT average of 200bp.

We expect AREIT earnings to slowly recover as businesses recover 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 26%. We expect extraordinarily low interest rates to provide support for asset values.

New stocks added or stocks sold to zero during the month

Sell to zero in Charter Hall Social Infrastructure REIT (CQE)

Buy new position in Centuria Industrial REIT (CIP)

The portfolio has established a new position in Centuria Industrial REIT (CIP).

We expect demand for industrial property assets to strengthen. There are several factors at play here. Uncertainty over occupancy in the retail and office sector has put some relative pressure on asset values in those sectors. Meanwhile an increase in online retail is helping fuel demand for logistics and fulfilment in the industrial property sector.

As a result we expect to see continued increased re-valuations of industrial assets, which should be supportive for industrial REIT prices.

CIP is well positioned in this regard. It owns a portfolio of 59 industrial property assets. About two-thirds of its tenants are directly linked to the production, packaging and distribution of consumer staples, telecommunications and pharmaceuticals. Key tenants include Telstra, Arnott's and Woolworths and its weighted-average lease expiry is 9.8 years. It is now offering a dividend yield just under 5%.

This position is partly funded by the sale of Charter Hall Social Infrastructure REIT (CQE).

CQE, which owns properties primarily occupied by child care centres, has outperformed in the past 12 months given the relative visibility on earnings. We have also owned Arena REIT (ARF) which operates in the same space.

We continue to like the child care space. But at this point we see better relative opportunity elsewhere (such as in industrial) and have lightened the portfolio's position. We have retained the position in ARF, which has an attractive development pipeline in our view.

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