

Pendal Monthly Commentary

Pendal Australian Listed Property Portfolio

August 2021

Market commentary

The Australian Real Estate Investment Trusts index was up 6.3% in August, outperforming the broader equity market (which gained 2.5%).

Australian bond yields were stable over the month. Combined with a solid reporting season this supported stock prices. Year rolling, AREITs were up 30.8%, outperforming the broader market which was up 28.1%. Globally REIT were up 1.5% in August and up 30.3% (USD terms) over the year.

The best-performing AREITs for the period included Centuria Capital Group (+17.5%) in response to strong FUM growth and guiding to 10% EPS growth for FY22; Scentre Group (+12.6%) on solid tenant demand and recovering rental income; and Vicinity Centres (11.3%) on rebounding sales and income.

The worst-performing REITs were BWP Trust (-1.2%) after it revealed a shortening WALE (4.2 years) and 11% leases expiring in FY22; Goodman Group (+2%) despite forecasting 10% EPS growth for FY22; and Charter Hall Retail REIT (+2.5%) which announced solid operating metrics but did not give earnings guidance for FY22. Sector NTA growth was up 7% for the June half.

There were two capital raisings over the period. Home Consortium Group raised \$650m via a new Health Wellness REIT (HCW) owning hospitals, health hubs, child and aged care. APN Convenience Retail raised \$50m to acquire two petrol stations. Waypoint REIT commenced its \$150m capital management initiative with a \$75m equity buy-back to be followed by a capital consolidation.

The standout sector over reporting season was retail REITs. Retail sales were back at pre-Covid levels (despite visitation down 6%); rents were 88% of pre-Covid levels and occupancy improved 60bp to 98.6%. Leasing spreads also improved with Scentre Groups spreads +450bp to -9%.

Employment data continued to improve +2.2k. Combined with a 20bp fall in the participation rate this pushed the unemployment rate down 30bp to 4.6%. US PMI readings deteriorated from 59.9 to 55.4 on the back of the spreading Delta variant which led to dovish comments from the US Fed and saw US bonds fall 21bp to 1.23%.

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 August 2021)
Sector limits	Cash 2-10%
Dividend Yield	3.87% [#]

Top 10 holdings

Code	Name	Weight
GMG	Goodman Group	24.84%
SCG	Scentre Group	10.68%
SGP	Stockland Trust Group	9.11%
CHC	Charter Hall Group	8.71%
DXS	Dexus Property Group	8.46%
MGR	Mirvac Group	7.17%
SCP	Shopping Cent Austl Prop	4.18%
GPT	GPT Group	4.16%
CLW	Charter Hall Long Wale Reit	4.09%
VCX	Vicinity Centres	3.44%

Source: Pendal as at 31 August 2021

Top 5 overweights versus S&P/ASX 300

Code	Name	Weight
CHC	Charter Hall Group	3.10%
SCP	Shopping Cent Austl Prop	2.23%
IAP	IAPF Group	2.16%
CLW	Charter Hall Long Wale Reit	2.14%
CQR	Charter Hall Retail REIT	1.93%

Top 5 underweights versus S&P/ASX 300

Code	Name	Weight
GPT	GPT Group	-2.14%
NSR	National Storage Reit (not held)	-1.71%
WPR	Waypoint Reit (not held)	-1.48%
GMG	Goodman Group	-1.37%
BWP	BWP Trust (not held)	-1.34%

Source: Pendal as at 31 August 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	6.43%	12.40%	24.98%	31.50%	11.52%	9.88%
S&P/ASX 300 A-REIT (Sector) (TR)	6.38%	12.81%	25.81%	31.75%	9.35%	8.90%
Active return	0.06%	-0.42%	-0.83%	-0.25%	2.17%	0.98%

Source: Pendal as at 31 August 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
ARF	Arena Reit	0.18%
<i>BWP</i>	<i>BWP Trust (not held)</i>	<i>0.11%</i>
CHC	Charter Hall Group	0.10%
IAP	IAPF Group	0.09%
<i>GMG</i>	<i>Goodman Group</i>	<i>0.06%</i>

Top 5 contributors - 1 year

Code	Name	Value Added
<i>VCX</i>	<i>Vicinity Centres</i>	<i>0.92%</i>
ARF	Arena Reit	0.54%
<i>BWP</i>	<i>BWP Trust (not held)</i>	<i>0.47%</i>
CHC	Charter Hall Group	0.44%
<i>CMW</i>	<i>Cromwell Property Group (not held)</i>	<i>0.30%</i>

Source: Pendal as at 31 August 2021

Underweight positions are in italics.

Top 5 detractors - monthly

Code	Name	Value Added
CQR	Charter Hall Retail REIT	-0.07%
INA	Ingenia Communities Group <i>(not held)</i>	-0.07%
NSR	National Storage Reit <i>(not held)</i>	-0.06%
<i>VCX</i>	<i>Vicinity Centres</i>	<i>-0.05%</i>
<i>ABP</i>	<i>Abacus Property Group(not held)</i>	<i>-0.04%</i>

Top 5 detractors - 1 year

Code	Name	Value Added
CLW	Charter Hall Long Wale Reit	-0.59%
SGP	Stockland Trust Group	-0.43%
URW	Unibail-Rodamco-Westfield CDI (not held)	-0.33%
SCG	Scentre Group	-0.31%
CQR	Charter Hall Retail REIT	-0.29%

Strategy performance and outlook

The portfolio was broadly in line with the index return in August. Overweights in childcare-focused Arena REIT (ARF) and property fund manager Charter Hall (CHC) were beneficial. The position in Charter Hall Retail REIT (CQR) detracted.

The AREIT sector is priced on an FY22 dividend yield of 4%, a 280bp spread over 10-year bonds and forward PE of 19.6x. We expect AREIT earnings to slowly improve as businesses recover and activity broadly picks up.

Recent NTA growth has been driven by strengthening asset values, particularly in industrial assets and long lease office/alternative assets. Gearing across the sector is relatively low at 24%. We expect extraordinarily low interest rates to continue 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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