

Pendal Monthly Commentary

Pendal Australian Listed Property Portfolio

June 2022

Market commentary

The AREIT index was down 10.3% in June, underperforming the broader equity market which was down 8.8%. The sector was impacted by an unexpected 50bp increase in the cash rate to 0.85% and rising inflation in offshore markets. The forward interest rate curve is now pricing a cash rate of 3.25% by December 2022, well ahead of economist's expectations (2.6%). The 10 year bond yield closed up 31bp to 3.66%, however hit an intra-month peak of 4.20%. Globally REITs were -6.9% in June with the EU REIT market the worst performing (-17.7%) and the Hong Kong REIT sector the best (-0.3%). Year rolling Global REITs are -12.5% with US REITs the best (-6%) and EU REITs the worst (-29.3%).

The best performing stocks were Arena REIT (flat) with June 2022 asset valuations +7.8% driven by cap rate compression (-23bp to 4.91%) and like for like rent reviews +4.1%, driven by CPI liked rent reviews. Other top performers included Cromwell Group (-2.4%) on no new news and Vicinity Centres (-2.9%) with upgraded FY22 FFO guidance (+3.3%) and better than expected sales/operating conditions. Underperformers included Home Consortium (-19.5%) and Charter Hall Group (-16.6%) with fund managers most impacted by rising bond yields and the implications for FUM flows and asset values and Centuria Industrial REIT (-16.8%) with the market concerned about asset values (narrow gap between funding costs and cap rates) and unhedged debt.

A number of AREITs released asset revaluations during the month with Dexs announcing a 2.2% increase in values, with office +1.7% (cap rate -10bp to 4.75%) and industrial +3.8% (cap rate -13bp to 4.29%). Vicinity Centres asset values were +1.7% with the portfolio weighted average cap rate (WACR) down 4bp to 5.31%. Shopping Centres Australia asset values were +0.8% with the WACR down 2bp to 5.43%. Charter Hall Retail REIT announced its portfolio rose 4.5% with its WACR -19bp to 5.2%.

Australian employment was +60.6k for the month and the unemployment rate stayed at 3.9% (participation +30bp to 66.7%).

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 30 June 2022)
Sector limits	Cash 2-10%
Dividend Yield	4.70% [#]

Top 10 holdings

Code	Name	Weight
GMG-AU	Goodman Group	25.51%
SCG-AU	Scentre Group	14.15%
SGP-AU	Stockland	9.18%
GPT-AU	GPT Group	6.99%
CHC-AU	Charter Hall Group	5.51%
SCP-AU	Shopping Centres Australasia Property Group RE Ltd.	5.02%
DXS-AU	Dexus	4.90%
MGR-AU	Mirvac Group	4.44%
CLW-AU	Charter Hall Long WALE REIT	4.38%
VCX-AU	Vicinity Centres	3.62%

Source: Pendal as at 30 June 2022

Top 5 overweights versus S&P/ASX 300

Code	Name	Weight
SCG-AU	Scentre Group	3.25%
SCP-AU	Shopping Centres Australasia Property Group RE Ltd.	2.52%
CLW-AU	Charter Hall Long WALE REIT	2.33%
SGP-AU	Stockland	2.21%
CQR-AU	Charter Hall Retail REIT	1.79%

Top 5 underweights versus S&P/ASX 300

Code	Name	Weight
DXS-AU	Dexus	-2.99%
VCX-AU	Vicinity Centres	-2.08%
MGR-AU	Mirvac Group	-1.95%
NSR-AU	National Storage REIT (not held)	-1.95%
BWP-AU	BWP Trust (not held)	-1.51%

Source: Pendal as at 30 June 2022

[#]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 years (p.a.)	5 years (p.a.)	Since inception (p.a.)*
Pendal Australian LPT	-9.97%	-16.40%	-21.29%	-8.90%	0.44%	6.78%	6.37%
S&P/ASX 300 A-REIT (Sector) (TR)	-10.39%	-17.49%	-23.03%	-11.22%	-1.95%	4.96%	5.15%
Active return	0.42%	1.09%	1.75%	2.32%	2.39%	1.82%	1.22%

Source: Pendal as at 30 June 2022

*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
SCP-AU	Shopping Centres Australasia Property Group RE Ltd.	0.14%
SGP-AU	Stockland	0.09%
<i>CIP-AU</i>	<i>Centuria Industrial REIT (not held)</i>	<i>0.09%</i>
<i>URW-AU</i>	<i>Unibail-Rodamco-Westfield (not held)</i>	<i>0.08%</i>
DXS-AU	Dexus	0.08%

Top 5 contributors - 1 year

Code	Name	Value Added
SCP-AU	Shopping Centres Australasia Property Group RE Ltd.	0.55%
IAP-AU	Irongate Group	0.51%
CQR-AU	Charter Hall Retail REIT	0.38%
ARF-AU	Arena REIT	0.37%
<i>INA-AU</i>	<i>Ingenia Communities Group (not held)</i>	<i>0.35%</i>

Source: Pendal as at 30 June 2022

Underweight positions are in italics.

Top 5 detractors - monthly

Code	Name	Value Added
VCX-AU	Vicinity Centres	-0.15%
<i>ARF-AU</i>	<i>Arena REIT (not held)</i>	<i>-0.11%</i>
<i>BWP-AU</i>	<i>BWP Trust (not held)</i>	<i>-0.10%</i>
CHC-AU	Charter Hall Group	-0.10%
<i>INA-AU</i>	<i>Ingenia Communities Group (not held)</i>	<i>-0.08%</i>

Top 5 detractors - 1 year

Code	Name	Value Added
VCX-AU	Vicinity Centres	-0.52%
<i>NSR-AU</i>	<i>National Storage REIT (not held)</i>	<i>-0.37%</i>
CHC-AU	Charter Hall Group	-0.24%
DXS-AU	Dexus	-0.13%
<i>CQE-AU</i>	<i>Charter Hall Social Infrastructure REIT (not held)</i>	<i>-0.11%</i>

Strategy performance and outlook

The portfolio ended ahead of the index in June. The overweights in Stockland and Shopping Centres Australia both helped. So too did the underweight in office.

The AREIT sector is priced on an FY23 dividend yield of 6% (excluding Fund Managers), a 230bp spread over 10 year bonds and forward PE of 14.7x. AREIT prices have fallen significantly year to date, pricing in 100bp of cap rate out shift from book value cap rates of 5%, implying asset falls of 18%. We were expecting AREIT earnings to recover in FY23, recovering some of the rental abatements granted to tenants during COVID. However, some of this earnings growth will be diminished by rising funding costs (+170bp from the start of 2022). Gearing levels across the sector sit at 25% and the majority of REITs have lengthened and diversified their debt sources. As such we expect the AREIT sector to be more resilient than in previous asset cycles.

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

No new stocks added or sold to zero 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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