

Pendal Monthly Commentary

Pendal Australian Listed Property Portfolio

August 2022

Market commentary

The AREIT index was down 3.5% in August, underperforming the broader equity market which was up 1.2%. Over the last year the AREIT sector has underperformed the broader market by 7.7%. The AREIT sector's weak performance was a function of by rising bond yields (+54bp to 3.6%) and rising cash rates (+50bp to 1.85%) impacting AREIT funding costs.

The best performing stocks over the month were Charter Hall Group (+6%) delivering a strong FY22 result and providing FY23 guidance well ahead of consensus. Scentre Group (+4%) also outperformed following a strong 1H22 result (FFO +18%) and showing improving leasing spreads as well as Waypoint REIT (+0.4%) with a strong result and announces a \$100M buyback.

Underperformers over the month included Arena AREIT (-12.7%) which despite solid portfolio metrics announced FY23 guidance which was 5% below consensus and Centuria Group (-11.8%) with flat EPS guidance, again below consensus. Dexus Property Group (-8.3%) also disappointed with FY23 guidance 5% below FY22 levels.

August was reporting season with the majority of AREITs tempering earnings guidance as a result of rising funding costs and increasing expensive interest rate hedging. NTA growth was strong over the season +4.5% and +13.9% over the FY22 year. Net Property Income growth was +3.2% across the sector and vacancy reduced by 6bp to 2.5%.

The RBA lifted the cash rate by 50bp to 1.85%, the fourth consecutive increase with the market pricing a terminal cash rate of 3.1% US bond yields rose 52bp to 3.13% on the back of hawkish commentary from the Fed at Jackson Hole.

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 August 2022)
Sector limits	Cash 2-10%
Dividend Yield	4.39% [#]

Top 10 holdings

Code	Name	Weight
GMG	Goodman Group	26.60%
SCG	Scentre Group	14.84%
SGP	Stockland	9.43%
CHC	Charter Hall Group	7.50%
DXS	Dexus	4.45%
MGR	Mirvac Group	4.37%
CLW	Charter Hall Long WALE REIT	4.24%
SCP	Shopping Centres Australasia Property Group RE Ltd.	4.14%
VCX	Vicinity Centres	3.53%
CQR	Charter Hall Retail REIT	3.36%

Source: Pendal as at 31 August 2022

Top 5 overweights versus S&P/ASX 300

Code	Name	Weight
SCG	Scentre Group	2.98%
SGP	Stockland	2.71%
CHC	Charter Hall Group	2.53%
CLW	Charter Hall Long WALE REIT	2.10%
WPR	Waypoint REIT Ltd.	1.80%

Top 5 underweights versus S&P/ASX 300

Code	Name	Weight
GPT	GPT Group	-2.91%
DXS	Dexus	-2.85%
VCX	Vicinity Centres	-2.29%
MGR	Mirvac Group	-2.07%
BWP	BWP Trust (not held)	-1.49%

Source: Pendal as at 31 August 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	-2.61%	-2.56%	-7.91%	-7.68%	1.87%	8.31%	7.35%
S&P/ASX 300 A-REIT (Sector) (TR)	-3.63%	-3.47%	-9.84%	-10.52%	-0.78%	6.25%	6.08%
Active return	1.03%	0.92%	1.92%	2.84%	2.66%	2.07%	1.27%

Source: Pendal as at 31 August 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
CHC	Charter Hall Group	0.23%
SCG	Scentre Group	0.22%
DXS	Dexus	0.14%
<i>ARF</i>	<i>Arena REIT (not held)</i>	<i>0.11%</i>
<i>CNI</i>	<i>Centuria Capital Group (not held)</i>	<i>0.08%</i>

Top 5 contributors - 1 year

Code	Name	Value Added
CQR	Charter Hall Retail REIT	0.51%
SCG	Scentre Group	0.48%
<i>IAP</i>	<i>Irongate Group (not held)</i>	<i>0.47%</i>
SCP	Shopping Centres Australasia Property Group RE Ltd.	0.41%
<i>ARF</i>	<i>Arena REIT (not held)</i>	<i>0.35%</i>

Source: Pendal as at 31 August 2022

Underweight positions are in italics.

Top 5 detractors - monthly

Code	Name	Value Added
SCP	Shopping Centres Australasia Property Group RE Ltd.	-0.08%
DXI	Dexus Industria REIT	-0.07%
SGP	Stockland	-0.07%
HDN	HomeCo Daily Needs REIT	-0.03%
MGR	Mirvac Group	-0.03%

Top 5 detractors - 1 year

Code	Name	Value Added
VCX	Vicinity Centres	-0.50%
NSR	National Storage REIT	-0.28%
BWP	BWP Trust (not held)	-0.17%
SGP	Stockland	-0.16%
<i>CQE</i>	<i>Charter Hall Social Infrastructure REIT (not held)</i>	<i>-0.13%</i>

Strategy performance and outlook

The portfolio outperformed the index in August. The overweights in fund manager Charter Hall and in mall owner/operator Scentre Group were beneficial, as was the underweight in office REIT Dexus and not owning Arena REIT.

The AREIT sector is priced on an FY23 dividend yield of 5.4% (excluding Fund Managers), an 180bp spread over 10 year bonds and forward PE of 15.7x.

AREIT prices have fallen significantly year to date, pricing in 90bp higher cap rates, implying asset falls of 15%. 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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