

Pendal Property Securities Fund

ARSN: 087 593 584

Equity Strategies

31 August 2022

About the Fund

The Pendal Property Securities Fund (**Fund**) invests primarily in Australian listed property securities including listed property trusts, developers and infrastructure investments. In addition, up to 15% of the Fund can be invested in international listed property securities and around 5% of the Fund will generally be invested in unlisted property securities.

Investment Return Objective

The Fund aims to provide a return (before fees, costs and taxes) that exceeds the S&P/ASX 300 A-REIT (Sector) (TR) Index over the medium to long term. The suggested investment timeframe is five years or more.

Investment Style

Pendal's property securities investment style is active, bottom-up and valuation-driven with stock selection driven by absolute valuations.

Investment Philosophy

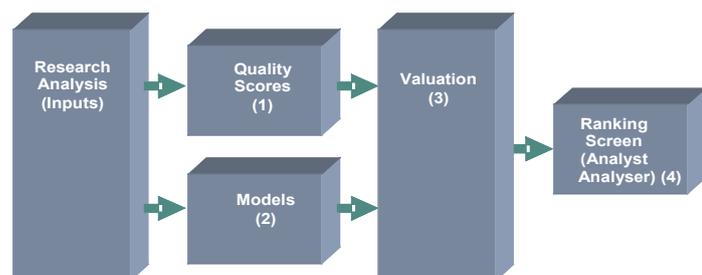
Pendal's investment philosophy is based on the beliefs that:

- market inefficiencies provide opportunities for well researched and disciplined investors to identify and purchase securities that are mispriced compared to what we consider to be their fundamental value;
- quality companies will outperform over time. Pendal's Listed Property Team place a high emphasis on quality scores to identify the best business franchises; and
- active investment management will outperform passive alternatives over a full market cycle.

Investment Process

The Property Securities investment process starts with comprehensive research utilising a range of proprietary valuation methodology and continues to four steps:

1. Scoring of quality factors
2. Financial modelling
3. Valuation
4. Stock Ranking



Environmental, social and governance (ESG) elements are incorporated into our investment process through the "Quality Scores". Examples of such ESG criteria include environmental performance (e.g. ABGR and NABERS environmental ratings); leading sustainability practices such as community and greenspace areas in residential projects as well as management's approach to addressing the risks (and opportunities) associated with climate change and the transition to a low carbon environment.

Investment Team

Pendal's Head of Property Securities, Peter Davidson has over 38 years industry experience and is supported by one portfolio manager/analyst and a specialist LPT dealer. The team also draws on the resources of Pendal's other specialist teams: Multi-Asset, Equity and Income & Fixed Interest.

Performance

(%)	Total Returns		Benchmark Return
	(post-fee)	(pre-fee)	
1 month	-2.87	-2.81	-3.63
3 months	-3.38	-3.22	-3.47
6 months	-9.47	-9.17	-9.84
1 year (pa)	-11.80	-11.23	-10.52
2 years (pa)	7.34	8.04	8.58
3 years (pa)	0.49	1.14	-0.78
5 years (pa)	7.71	8.41	6.25

Other Information

Fund size (as at 31 Aug 2022)	\$454 million
Date of inception	November 1997
Minimum investment	\$25,000
Buy-sell spread ¹	For the Fund's current buy-sell spread information, visit www.pendalgroup.com
Distribution frequency	Quarterly
Currency management	Foreign currency exposure is hedged
Cash holdings	Up to 20%
Tracking error guideline	2-5%
APIR code	BTA0061AU

¹ The buy-sell spread represents a contribution to the transaction costs incurred by the Fund, when the Fund is purchasing and selling assets. The buy-sell spread is generally incurred whenever you invest or withdraw funds, and may vary from time to time without notice.

Fees and costs

You should refer to the latest Product Disclosure Statement for full details of the ongoing fees and costs that you may be charged.

Management fee ²	0.65% pa
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² This is the fee we charge for managing the assets and overseeing the operations of the Fund. The management fee is deducted from the Fund's assets and reflected in its unit price.

Risks

An investment in the Fund involves risk, including:

- **Market risk** - The risk associated with factors that can influence the direction and volatility of an overall market, as opposed to security-specific risks. These factors can affect one country or a number of countries.
- **Security specific risk** - The risk associated with an individual asset.
- **International investments risk** - The risk arising from political and economic uncertainties, interest rate movements and differences in regulatory supervision associated with international investments.
- **Liquidity risk** - The risk that an asset may not be converted to cash in a timely manner.

Please read the Fund's Product Disclosure Statement (**PDS**) for a detailed explanation of each of these risks.

Market review

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 sectors weak performance was a function of rising bond yields (+54bp to 3.6%) and rising cash rates (+50bp to 1.85%) impacting AREIT funding costs. Globally REITs were down 6% in August (USD terms) with Hong Kong the top performer (-3.3%) and the UK the worst performer (-14.1%). Year rolling Global REITs are down 16.6% with Hong Kong the best market (flat) and EU REITs the worst performers (-38.7%).

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.

Fund performance

The Fund outperformed for the month. Positive attribution came from overweight positions in Charter Hall Group, Scentre Group and RAMs Essential Property Fund and underweight positions in Dexus Property Group and Centuria Capital Limited. Overweight positions in Arena REIT, Dexus Industria REIT and Stockland Trust Group and underweight positions in Waypoint REIT and Mirvac Group all detracted from performance.

During the month we reduced our overweight position in GPT Group from overweight to underweight and reduced our overweight positions in Rural Funds Group and Centuria Industrial REIT. We also increased our position in National Storage REIT from underweight to overweight and increased our overweight positions in Charter Hall Long WALE and Charter Hall Group.

Market outlook

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 of cap rate out shift from book value cap rates of 5%, 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.

For more information please call 1300 346 821,
contact your key account manager or visit pendalgroup.com

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PFSL is the responsible entity and issuer of units in the Pental Property Securities Fund (Fund) ARSN: 087 593 584. A product disclosure statement (PDS) is available for the Fund and can be obtained by calling 1300 346 821 or visiting www.pentalgroup.com. The Target Market Determination (TMD) for the Fund is available at www.pentalgroup.com/tdo. You should obtain and consider the PDS and TMD before deciding whether to acquire, continue to hold or dispose of units in the Fund. An investment in the Fund is subject to investment risk, including possible delays in repayment of withdrawal proceeds and loss of income and principal invested.

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If market movements, cash flows or changes in the nature of an investment (e.g. a change in credit rating) cause the Fund to exceed any of the investment ranges or limits specified, this will be rectified by PFSL as soon as reasonably practicable after becoming aware of it. If PFSL does so, it will have no other obligations in relation to these circumstances. The procedures, investment ranges, benchmarks and limits specified are accurate as at the date of this factsheet and PFSL reserves the right to vary these from time to time.