

Pendal Monthly Commentary

Pendal Australian Listed Property Portfolio

October 2022

Market commentary

The AREIT index was up 9.9% in October, outperforming the broader equity market which was up 6%. The AREIT sectors recovery was a function of falling bond yields, -13bp to 3.75% and a less hawkish Reserve Bank rate rise of 25bp to 2.60%. Globally REITs were up 2.5% in October (USD terms) with the best performing regions being Australia and the UK (+7.6%) and the weakest being Hong Kong (-9%). Globally REITs have returned -25.7% over the last year with Australia the best performer (-14.1%) and EU REITs the worst at -38.6%.

The best performing stocks over the month were Arena REIT (+18%) following the Federal Budget's formal budgeting of increased childcare subsidies, National Storage REIT (+17%) following their 1Q23 operational update with rates +2.3% and REVPAM +1.2% and Centuria Industrial REIT (+17%) with their quarterly update announcing re-leasing spreads of +18%. The worst performing stocks were Dexu Property Group (+0.5%) with its quarterly revealing flat occupancy and incentives continuing at elevated levels (29.6%), Cromwell Property Group (+4.5%) following its announcement of the sale of its retirement living business releasing capital of \$168M and Ingenia Group (+5.4%) following the announcement of three asset sales at a slight premium to book value.

There were a number of leadership changes announced over the month including CEO Sue Lloyd Hurwitz retiring from Mirvac Group, CEO Grant Kelley retiring from Vicinity Group and US CEO/Group COO Denis Hickey retiring from Lend Lease Group. Notable quarterly updates include Stockland Group with residential sales -45%, although prices +13%, Mirvac quarterly residential sales -54% and Vicinity Centres announcing releasing spreads had materially improved now -0.4% and retail sales +21% on pre-COVID levels.

The RBA lifted the cash rate by 25bp to 2.60%, the fifth consecutive increase with the market pricing a terminal cash rate of 4%. Employment increased +0.9k, resulting in a flat unemployment rate of 3.5% (participation rate was flat at 66.6%).

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 October 2022)
Sector limits	Cash 2-10%
Dividend Yield	4.67% [#]

Top 10 holdings

Code	Name	Weight
GMG	Goodman Group	24.08%
SCG	Scentre Group	15.34%
SGP	Stockland	9.82%
CHC	Charter Hall Group	7.53%
DXS	Dexu	6.33%
SCP	Shopping Centres Australasia Property Group RE Ltd.	4.57%
MGR	Mirvac Group	4.51%
CLW	Charter Hall Long WALE REIT	4.32%
VCX	Vicinity Centres	3.72%
GPT	GPT Group	3.60%

Source: Pendal as at 31 October 2022

Top 5 overweights versus S&P/ASX 300

Code	Name	Weight
SCG	Scentre Group	3.02%
SGP	Stockland	2.79%
CHC	Charter Hall Group	2.52%
SCP	Shopping Centres Australasia Property Group RE Ltd.	2.08%
CLW	Charter Hall Long WALE REIT	2.00%

Top 5 underweights versus S&P/ASX 300

Code	Name	Weight
GPT	GPT Group	-3.16%
VCX	Vicinity Centres	-2.44%
MGR	Mirvac Group	-2.18%
BWP	BWP Trust (not held)	-1.61%
CIP	Centuria Industrial REIT (not held)	-1.34%

Source: Pendal as at 31 October 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	10.09%	-7.02%	-14.12%	-10.93%	1.11%	6.76%	6.54%
S&P/ASX 300 A-REIT (Sector) (TR)	9.87%	-8.48%	-16.17%	-13.86%	-2.02%	4.57%	5.23%
Active return	0.21%	1.46%	2.05%	2.93%	3.12%	2.19%	1.31%

Source: Pendal as at 31 October 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
SCG	Scentre Group	0.12%
SCP	Shopping Centres Australasia Property Group RE Ltd.	0.12%
WPR	Waypoint REIT Ltd.	0.10%
NSR	National Storage REIT	0.08%
MGR	Mirvac Group	0.08%

Top 5 contributors - 1 year

Code	Name	Value Added
<i>IAP</i>	<i>Irongate Group (not held)</i>	<i>0.44%</i>
SCG	Scentre Group	0.43%
SCP	Shopping Centres Australasia Property Group RE Ltd.	0.40%
<i>INA</i>	<i>Ingenia Communities Group (not held)</i>	<i>0.38%</i>
CQR	Charter Hall Retail REIT	0.32%

Source: Pendal as at 31 October 2022

Underweight positions are in italics.

Top 5 detractors - monthly

Code	Name	Value Added
<i>CIP</i>	<i>Centuria Industrial REIT (not held)</i>	<i>-0.09%</i>
<i>ARF</i>	<i>Arena REIT (not held)</i>	<i>-0.09%</i>
GPT	GPT Group	-0.08%
VCX	Vicinity Centres	-0.05%
<i>URW</i>	<i>Unibail-Rodamco-Westfield (not held)</i>	<i>-0.05%</i>

Top 5 detractors - 1 year

Code	Name	Value Added
VCX	Vicinity Centres	-0.59%
<i>BWP</i>	<i>BWP Trust (not held)</i>	<i>-0.20%</i>
NSR	National Storage REIT	-0.10%
<i>CQE</i>	<i>Charter Hall Social Infrastructure REIT (not held)</i>	<i>-0.08%</i>
GMG	Goodman Group	-0.07%

Strategy performance and outlook

The portfolio outperformed the index in October. The overweights in mall owner/operator Scentre Group and Shopping Centres Australasia continued to do well, helped by resilient consumers.

The AREIT sector is priced on an FY23 dividend yield of 5.8% (excluding Fund Managers), an 180bp spread over 10 year bonds and forward PE of 15.0x. 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.

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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