PENDAL

Pendal Monthly Commentary

Pendal Australian Listed Property Portfolio

December 2022

Market commentary

The AREIT index was down 4.1% in December, underperforming the broader equity market which was down 3.2%. The AREIT sector was negatively impacted by rising bond yields, +52bp to close at 4.05% as well as the RBA lifting cash rates another 25bp to 3.10%. Globally REITs were down 2.5% in December (USD terms) with the best performing market being Hong Kong (+12%) and the worst performing market was the US REITs (-5.1%). Globally REITs have returned -23.6% over the last year with Hong Kong REITs the strongest performers (+0.7%) and EU REITs the worst at -40.2%.

The best performing stocks over the month were Ingenia Group (+3.5%) on no new news, although reversing earlier underperformance, Charter Hall Long WALE REIT (+1.1%) following revaluations showing a 0.9% increase across the portfolio despite cap rates increasing 5bp to 4.41% and Region Group (+0.9%) despite valuations showing a 3% fall in valuations with the cap rate expanding 23bp to 5.67%. The worst performing stocks were the bond rate sensitive fund managers with HMC Capital (-18.4%) also impacted by its removal from the FTSE EPRA/NAREIT index, Charter Hall Group (-12.6%) on no new news although impacted by halted redemptions on a Blackstone unlisted REIT fund and Goodman Group (-8.4%) on no new news.

A number of AREITs announced the results of asset valuations over the month with cap rate expansion ranging from 5-47bp and averaging 18bp, hurt by a blow out in discount rates. However, income growth largely offset the moves with asset values only down 4%. 2022 was a difficult year for AREITs with bond rates impacting market implied asset values and rising cash rates hurting floating interest rate exposure and cash flows.

Employment increased +64k, much stronger than expected, and the unemployment rate was unchanged at 3.4% as the participation rate increased slightly. Housing credit was up a modest 0.4%, with owner occupied credit +0.4% and credit to investors +0.3%.

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 December 2022)
Sector limits	Cash 2-10%
Dividend Yield	4.63%#

Top 10 holdings

Code	Name	Weight
GMG	Goodman Group	24.25%
SCG	Scentre Group	15.02%
SGP	Stockland	9.77%
CHC	Charter Hall Group	6.87%
DXS	Dexus	6.23%
MGR	Mirvac Group	4.57%
RGN	Region Group	4.49%
CLW	Charter Hall Long WALE REIT	4.34%
VCX	Vicinity Centres	3.77%
WPR	Waypoint REIT Ltd.	3.51%

Source: Pendal as at 31 December 2022

Top 5 overweights versus S&P/ASX 300

Code	Name	Weight
SCG	Scentre Group	2.80%
SGP	Stockland	2.69%
CHC	Charter Hall Group	2.24%
RGN	Region Group	1.98%
CLW	Charter Hall Long WALE REIT	1.98%

Top 5 underweights versus S&P/ASX 300

Code	Name	Weight
GPT	GPT Group	-3.12%
VCX	Vicinity Centres	-2.56%
MGR	Mirvac Group	-2.29%
BWP	BWP Trust (not held)	-1.54%
CIP	Centuria Industrial REIT (not held)	-1.38%

Source: Pendal as at 31 December 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	-3.97%	11.64%	4.79%	-17.52%	2.31%	5.93%	6.59%
S&P/ASX 300 A-REIT (Sector) (TR)	-4.04%	11.56%	3.87%	-20.06%	-0.83%	3.79%	5.32%
Active return	**0.07%**	**0.08%**	**0.92%**	**2.53%**	**3.14%**	**2.15%**	**1.27%**

Source: Pendal as at 31 December 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
HMC	*HMC Capital Limited (not held)*	*0.11%*
CLW	Charter Hall Long WALE REIT	0.10%
RGN	Region Group	0.10%
WPR	Waypoint REIT Ltd.	0.08%
SGP	Stockland	0.07%

Top 5 detractors - monthly

Code	Name	Value Added
CHC	Charter Hall Group	-0.22%
INA	*Ingenia Communities Group (not held)*	*-0.09%*
HPI	*Hotel Property Investments Ltd. (not held)*	*-0.07%*
VCX	Vicinity Centres	-0.06%
CQE	*Charter Hall Social Infrastructure REIT (not held)*	*-0.04%*

Top 5 contributors - 1 year

Code	Name	Value Added
SCG	Scentre Group	0.47%
IAP	*Irongate Group Stapled Secs (not held)*	*0.39%*
RGN	Region Group	0.39%
CQR	Charter Hall Retail REIT	0.34%
SGP	Stockland	0.24%

Top 5 detractors - 1 year

Code	Name	Value Added
VCX	Vicinity Centres	-0.68%
CHC	Charter Hall Group	-0.38%
BWP	*BWP Trust (not held)*	*-0.24%*
NSR	National Storage REIT	-0.14%
HPI	*Hotel Property Investments Ltd. (not held)*	*-0.10%*

Source: Pendal as at 31 December 2022
Underweight positions are in italics.

Strategy performance and outlook

The portfolio was in line with the index in December. The positions in Charter Hall Long WALE REIT (CLW) and Region (RGN) were beneficial, as was not owning HMC Capital (HMC). The holding in Charter Hall Group (CHC) was the largest drag.

The AREIT sector is priced on an FY23 dividend yield of 4.6%, a 55bp spread over 10 year bonds and forward PE of 15.3x. 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 14-16%. 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 24% 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**

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