Pendal Monthly Commentary

Pendal Australian Listed Property Portfolio

February 2023

Market commentary

The AREIT index bounced back in January +8.1%, outperforming the broader equity market which was up 6.2%. The AREIT sector was propelled by slowing rate hikes and falling bond yields with the 10 year bond yield down 50bp to 3.55%. Globally REITs were up 8% in January (USD terms) with the best performing market being the EU (+12.2%) and the worst performing market was Japan (+0.8%). Globally REITs have returned -13.1% over the last year with Hong Kong REITs the strongest performers (+7.8%) and EU REITs the worst at -30%.

The best performing stocks over the month were Goodman Group (+15%), Charter Hall Group (+14.9%) and Centuria Capital (+9.4%) with the growth/fund manager names the most sensitive to changes in the falling bond rate. The worst performers for the period were Arena REIT (-2.6%) with investors rotating to higher growth names like the fund managers, National Storage REIT (-0.4%) with the stock impacted by slowing residential activity and a pull back in global comparatives and Region Group (-0.4%) with convenience based retail assets showing cap rate expansion. For the past 12 months the top performing AREITs were Vicinity Centres (+33.4%) and Scentre Group (+9.8%) driven by robust retail sales and rent recovery and the worst performing REITs being Centuria Capital (-33.2%) and HMC Capital (-28.2%).

There was very little activity during the month and virtually no significant capital transactions with prospective buyers waiting for clarity on where interest rates/bank funding costs will settle.

Employment declined 14.6k, during the month, and the unemployment rate steady at 3.5% as the participation rate down. Australian retail sales fell 3.9%, weaker than expectations, although the timing of sales on Black Friday in November have impacted December sales over the last couple of years.

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 28 February 2023)
Sector limits	Cash 2-10%
Dividend Yield	4.18%#

Top 10 holdings

Code	Name	Weight
GMG	Goodman Group	26.30%
SCG	Scentre Group	13.44%
SGP	Stockland	10.09%
DXS	Dexus	8.36%
CHC	Charter Hall Group	7.55%
MGR	Mirvac Group	4.04%
RGN	Region Group	3.93%
CLW	Charter Hall Long WALE REIT	3.68%
NSR	National Storage REIT	3.62%
GPT	GPT Group	3.60%

Source: Pendal as at 28 February 2023

Top 5 overweights versus S&P/ASX 300 A-REIT

Code	Name	Weight
SGP	Stockland	3.09%
CHC	Charter Hall Group	2.75%
WPR	Waypoint REIT Ltd.	1.76%
RGN	Region Group	1.72%
SCG	Scentre Group	1.65%

Top 5 underweights versus S&P/ASX 300 A-REIT

Code	Name	Weight
GPT	GPT Group	-3.28%
MGR	Mirvac Group	-2.79%
VCX	Vicinity Centres	-2.45%
BWP	BWP Trust (not held)	-1.43%
CIP	Centuria Industrial REIT (not held)	-1.36%

Source: Pendal as at 28 February 2023

#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 year (p.a.)	5 year (p.a.)	Since inception (p.a.)*
Pendal Australian LPT	-0.30%	3.28%	4.13%	-4.11%	3.88%	8.85%	7.43%
S&P/ASX 300 A-REIT (Sector) (TR)	-0.36%	3.34%	3.84%	-6.38%	1.20%	6.71%	6.19%
Active return	**0.06%**	**-0.05%**	**0.29%**	**2.27%**	**2.67%**	**2.14%**	**1.24%**

Source: Pendal as at 28 February 2023
*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
INA	*Ingenia Communities Group (not held)*	*0.16%*
NSR	National Storage REIT	0.13%
RFF	*Rural Funds Group (not held)*	*0.10%*
CQE	*Charter Hall Social Infrastructure REIT (not held)*	*0.07%*
CNI	*Centuria Capital Group (not held)*	*0.06%*

Top 5 detractors - monthly

Code	Name	Value Added
GPT	GPT Group	-0.12%
CHC	Charter Hall Group	-0.11%
RGN	Region Group	-0.10%
DXI	Dexus Industria REIT	-0.07%
SGP	Stockland	-0.07%

Top 5 contributors - 1 year

Code	Name	Value Added
DXS	Dexus	0.38%
SCG	Scentre Group	0.23%
IAP	*Irongate Group Stapled Secs (not held)*	*0.22%*
HDN	HomeCo Daily Needs REIT	0.21%
CQR	Charter Hall Retail REIT	0.20%

Top 5 detractors - 1 year

Code	Name	Value Added
VCX	Vicinity Centres	-0.47%
GPT	GPT Group	-0.21%
CHC	Charter Hall Group	-0.16%
BWP	*BWP Trust (not held)*	*-0.10%*
HPI	*Hotel Property Investments Ltd. (not held)*	*-0.06%*

Source: Pendal as at 28 February 2023
Underweight positions are in italics.

Strategy performance and outlook

The portfolio was largely in line with the index in February. An overweight in National Storage REIT and underweight in Ingenia Communities was beneficial. This was offset by the underweight in GPT Group and overweight in Charter Hall Group.
The AREIT sector is priced on an FY23 dividend yield of 4.3%, a 75bp spread over 10 year bonds and forward PE of 16.1x. AREIT prices have recovered some of their recent falls, however continue to price 70-80bp of cap rate out shift from book value cap rates of 5%, implying asset falls of 12-14%. We were expecting AREIT earnings to recover strongly in FY23, 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**