

Pendal Monthly Commentary

Pendal Australian Listed Property Portfolio

April 2023

Market commentary

The AREIT index delivered a strong performance in April with a total return of +5.3%, outperforming the broader market by 3.5%.

The pause in the RBA interest rate hikes combined with a softer CPI reading of +1.2% (qtr/qtr) saw the sector recover led by the residential exposed REITs. Australian bond yields were little changed and finished the month at 3.34%. Globally REITs were up 1.9% in April (USD terms) with the best performing market being the UK (+8.1%) and the worst performing market was Hong Kong (-0.1%). Globally REITs have returned -14.3% over the last year with Hong Kong REITs the strongest performers (+0.8%) and EU REITs the worst at -25.13%.

The best performing stocks over the month were Mirvac Group (+15.9%) driven by a pause in interest rates and Core Logic data showing house prices had posted a 0.6% gain, Centuria Group (+13.6%) on no news and Ingenia Group (+13.3%) with its exposure to residential markets assisted by a pause in interest rates. The worst performing AREITs for the month were National Storage REIT (-0.4%) following its \$340M equity capital raising, Waypoint REIT (+0.8%) on no new news and Charter Hall Group (+1.2%) hurt by continuing concerns about its exposure office values and depressed capital market transactions.

Quarterlies were released over April with Mirvac Group lowering FY23 earnings guidance by 5% with several residential projects impacted by delays and pushed into FY24 and Group announcing a strategy to reduce its office exposure. Stockland reported a significant pick up in residential enquiries, albeit settlements were at a 15 year low, however retail sales across its investment portfolio +10% over 2019 levels.

Employment increased by 53k, during the month which saw the unemployment rate flat at 3.5% near a five-decade low. Australian retail sales were +0.4% driven by non-discretionary food sales (+1%) and spending at cafes/restaurants (+1.5%).

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 30 April 2023)
Sector limits	Cash 2-10%
Dividend Yield	4.40% [#]

Top 10 holdings

Code	Name	Weight
GMG	Goodman Group	26.09%
SCG	Scentre Group	13.26%
SGP	Stockland	11.93%
DXS	Dexus	7.87%
CHC	Charter Hall Group	6.45%
MGR	Mirvac Group	4.38%
RGN	Region Group	3.87%
VCX	Vicinity Centres	3.75%
NSR	National Storage REIT	3.66%
CLW	Charter Hall Long WALE REIT	3.55%

Source: Pendal as at 30 April 2023

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

Code	Name	Weight
SGP	Stockland	3.66%
CHC	Charter Hall Group	2.35%
WPR	Waypoint REIT Ltd.	1.80%
RGN	Region Group	1.67%
SCG	Scentre Group	1.63%

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

Code	Name	Weight
GPT	GPT Group	-3.13%
MGR	Mirvac Group	-3.02%
VCX	Vicinity Centres	-2.57%
BWP	BWP Trust (not held)	-1.45%
CIP	Centuria Industrial REIT (not held)	-1.31%

Source: Pendal as at 30 April 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	4.64%	-2.30%	6.88%	-8.21%	12.98%	7.54%	7.00%
S&P/ASX 300 A-REIT (Sector) (TR)	5.16%	-2.39%	7.11%	-10.20%	11.27%	5.37%	5.79%
Active return	-0.51%	0.09%	-0.23%	1.99%	1.71%	2.17%	1.21%

Source: Pendal as at 30 April 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
SGP	Stockland	0.23%
<i>RFF</i>	<i>Rural Funds Group (not held)</i>	<i>0.04%</i>
<i>BWP</i>	<i>BWP Trust (not held)</i>	<i>0.04%</i>
<i>GPT</i>	<i>GPT Group</i>	<i>0.04%</i>
<i>CQE</i>	<i>Charter Hall Social Infrastructure REIT (not held)</i>	<i>0.03%</i>

Top 5 contributors - 1 year

Code	Name	Value Added
SGP	Stockland	0.66%
SCG	Scentre Group	0.34%
DXS	Dexus	0.29%
<i>HMC</i>	<i>HMC Capital Limited (not held)</i>	<i>0.26%</i>
<i>CNI</i>	<i>Centuria Capital Group (not held)</i>	<i>0.19%</i>

Source: Pendal as at 30 April 2023

Underweight positions are in italics.

Top 5 detractors - monthly

Code	Name	Value Added
<i>MGR</i>	<i>Mirvac Group</i>	<i>-0.29%</i>
CHC	Charter Hall Group	-0.10%
<i>INA</i>	<i>Ingenia Communities Group (not held)</i>	<i>-0.09%</i>
WPR	Waypoint REIT Ltd.	-0.08%
NSR	National Storage REIT	-0.08%

Top 5 detractors - 1 year

Code	Name	Value Added
<i>VCX</i>	<i>Vicinity Centres</i>	<i>-0.53%</i>
<i>MGR</i>	<i>Mirvac Group</i>	<i>-0.34%</i>
CHC	Charter Hall Group	-0.24%
<i>BWP</i>	<i>BWP Trust (not held)</i>	<i>-0.11%</i>
<i>GPT</i>	<i>GPT Group</i>	<i>-0.07%</i>

Strategy performance and outlook

The portfolio underperformed the index in April. The Stockland Group overweight was beneficial, while the underweight in Mirvac and Ingenia Communities dragged.

The AREIT sector is priced on an FY23 dividend yield of 4.6%, a 126bp spread over 10 year bonds and forward PE of 15.9x. 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 26% 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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