

Pendal Monthly Commentary

Pendal Australian Listed Property Portfolio

August 2023

Market commentary

The AREIT index was up 2.3% in August, outperforming the broader market.

The outperformance was driven by the continued pause in interest rate hikes by the RBA as well as a lower than expected CPI leading to a relatively stable bond rate.

The strong month was also driven by a solid performance from Goodman Group (+13%), without which AREITs would have underperformed the broader market.

The best performing stocks over the month were Goodman Group (+13.7%) with the Group announcing a tenant led Data Centre development pipeline of up to \$30B, HMC Capital Ltd (+5.1%) reiterating its \$10B FUM target and Ingenia Communities (+3.7%) announcing the extension of its land lease JV with Sun Communities.

The worst performing stocks were Charter Hall Long WALE (-13.9%) following weak FY24 guidance and revealing high look through gearing of 40.1%, Centuria Group (-12.6%) following very weak FY24 EPS guidance and Growthpoint Properties (-12.2%) following weak FY24 guidance and high gearing of over 37%.

Major news for the month revolved around reporting season with the majority of REITs disclosing higher interest costs as base rates have risen and interest rate hedges have rolled off. The mall REITs showed the strongest operational performance with occupancy and ancillary income moving back towards pre-COVID levels and positive leasing spreads across the board. In terms of transactions Dexus sold 1 Margaret St, Sydney for \$293M, a 16% discount to the office buildings Dec 22 valuation.

The RBA left the cash rate at 4.1% following a lower than expected CPI and slightly higher than expected retail sales reading +0.5% M/M.

Portfolio overview

Australian Listed Property Portfolio	
Investment strategy	Pendal employs a bottom up, fundamental approach to build a diversified portfolio of Australian listed property shares.
Investment objective	To deliver outperformance relative to the benchmark after fees over a rolling three year period.
Benchmark	S&P/ASX 300 A-REIT (Sector) (TR)
Number of stocks	8 - 15 (15 as at 31 August 2023)
Sector limits	Australian Property 90 - 98%, Cash 2 - 10%
Dividend Yield	4.25% [#]

Top 10 holdings

Code	Name	Weight
GMG	Goodman Group	30.16%
SCG	Scentre Group	11.14%
SGP	Stockland	10.37%
DXS	Dexus	7.96%
VCX	Vicinity Centres	6.42%
CHC	Charter Hall Group	5.97%
MGR	Mirvac Group	4.20%
WPR	Waypoint REIT Ltd.	3.35%
NSR	National Storage REIT	3.25%
GPT	GPT Group	3.13%

Source: Pendal as at 31 August 2023

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

Code	Name	Weight
SGP	Stockland	2.66%
WPR	Waypoint REIT Ltd.	2.07%
CHC	Charter Hall Group	2.06%
DXI	Dexus Industria REIT	1.80%
DXS	Dexus	1.60%

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

Code	Name	Weight
MGR	Mirvac Group	-3.08%
GPT	GPT Group	-3.00%
RGN	Region Group (not held)	-1.89%
CLW	Charter Hall Long WALE REIT (not held)	-1.76%
BWP	BWP Trust (not held)	-1.36%

Source: Pendal as at 31 August 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	2.62%	5.75%	2.55%	6.78%	9.04%	6.46%	7.29%
S&P/ASX 300 A-REIT (Sector) (TR)	2.18%	6.05%	2.01%	5.93%	7.69%	4.39%	6.06%
Active return	0.45%	-0.30%	0.53%	0.85%	1.35%	2.07%	1.22%

Source: Pendal as at 31 August 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
<i>CLW</i>	<i>Charter Hall Long WALE REIT (not held)</i>	<i>0.25%</i>
<i>RGN</i>	<i>Region Group (not held)</i>	<i>0.17%</i>
<i>GPT</i>	<i>GPT Group</i>	<i>0.17%</i>
<i>CNI</i>	<i>Centuria Capital Group (not held)</i>	<i>0.14%</i>
<i>GOZ</i>	<i>Growthpoint Properties Australia (not held)</i>	<i>0.09%</i>

Top 5 contributors - 1 year

Code	Name	Value Added
SGP	Stockland	0.56%
<i>CMW</i>	<i>Cromwell Property Group (not held)</i>	<i>0.34%</i>
<i>CQE</i>	<i>Charter Hall Social Infrastructure REIT (not held)</i>	<i>0.23%</i>
<i>GOZ</i>	<i>Growthpoint Properties Australia (not held)</i>	<i>0.23%</i>
<i>CNI</i>	<i>Centuria Capital Group (not held)</i>	<i>0.19%</i>

Source: Pendal as at 31 August 2023

Underweight positions are in italics.

Top 5 detractors - monthly

Code	Name	Value Added
CHC	Charter Hall Group	-0.17%
WPR	Waypoint REIT Ltd.	-0.15%
DXS	Dexus	-0.14%
ARF	Arena REIT	-0.07%
VCX	Vicinity Centres	-0.04%

Top 5 detractors - 1 year

Code	Name	Value Added
CHC	Charter Hall Group	-0.70%
<i>MGR</i>	<i>Mirvac Group</i>	<i>-0.34%</i>
SCG	Scentre Group	-0.12%
WPR	Waypoint REIT Ltd.	-0.11%
VCX	Vicinity Centres	-0.07%

Strategy performance and outlook

The portfolio outperformed its index in August. The largest positive contributions came from underweights in Charter Hall Long WALE REIT, Region Group and GPT Group.

The overweight in Charter Hall Group detracted. We continue to believe that the stock offers value with the market too bearish on its outlook for asset values. CHC is trading on 13x FY24, however there are few near term catalysts. We expect gradual deleveraging of listed/unlisted funds through the introduction of new capital sources (Domestic and Japanese investors) and a strong pick up in transaction activity in FY24.

The AREIT sector is priced on an FY24 dividend yield of 4.2%, a 17bp spread over 10 year bonds, well below the LT average of 200bp.

AREIT prices have recovered some of their recent falls, however continue to price 100bp of cap rate out shift from book value cap rates of 5.2%, implying asset falls of 14-16%.

We expect AREIT earnings to stabilize in FY24, with the majority of interest rate headwinds abating. Gearing levels across the sector sit at 28% 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

The portfolio made a number of changes during the month. The position in Charter Hall Long WALE REIT (CLW) was sold to zero on what we see as an elevated risk of a capital raising. We also sold to zero in shopping centre owner/operator Region Group (RGN). While we continue to like the company, we see better value in Charter Hall Retail REIT (CQR) following the latter's underperformance and hence have switched the exposure between the two.

We also bought a new position in HomeCo Daily Needs REIT, which also specializes in neighborhood retail, large format retail and Health & Services properties. Like Charter Hall Retail REIT, it has underperformed the sector in recent times and now represents attractive value, in our view.

For more information contact your
key account manager or visit [pendalgroup.com](https://www.pendalgroup.com)

PENDAL

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