

## Pendal Monthly Commentary

### Pendal Australian Listed Property Portfolio

February 2024

#### Market commentary

The AREIT index delivered a 5.1% total return in February, outperforming the broader market by 430bp with returns driven by stock specific news as the Australian bond rate rose 13bp to close the month at 4.14%. Year rolling AREITs returned 16.1%, outperforming the broader market by 540bp. Globally REITs were up 1.5% in February (USD terms) with Australia the best performing market and the EU markets the worse (-7%). Australian REITs have also been the strongest relative market on a year rolling basis.

The best performing stocks over the month were Goodman Group (+16.8%) driven by a strong 1H24 result with EPS +28% as well as news of its pending EPRA NAREIT index inclusion, HMC Capital (+14.8%) with the Group reiterating their \$20B FUM target as well as growth initiatives such as the Energy Transition platform and the acquisition of a US Digital Infrastructure platform and Ingenia Group (+9.2%) driven by an improvement in land lease sales and prices. The worst performing stocks were GPT Group with a softer result in its retail portfolio as well as cutting its distribution as capex and incentives for its vacant office space hamper cash flow, Centuria Group driven by flat FUM and elevated gearing across some of its funds and Dexu Property Group (-5.6%) with some slippage in funds management margins and flagging a weaker 2H24.

February was reporting season with Industrial and Mall REITs the stand out for returns with record leasing spreads and occupancy levels driving cash flows and protecting asset values from cap rate expansion. Goodman Property trust (NZ) announced its intention to internalize management at a cost of NZ \$272M. National Storage REIT also announced the acquisition of a 9 asset self storage portfolio which is expected to be earnings accretive in FY24.

The RBA held the cash rate steady at 4.35%, however fixed income markets are pricing the cash rate to be at 3.95% by the end of 2024. Employment increased by <1k with full time employment +6.5k offset by a fall in part time employment (-6.4k). The unemployment rate increased by 20bps to 4.1% with the participation rate flat at 66.8%.

#### Portfolio overview

| Australian Listed Property Portfolio |   |
|--------------------------------------|---|
| <b>Investment strategy</b>           | Pendal employs a bottom up, fundamental approach to build a diversified portfolio of Australian listed property shares. |
| <b>Investment objective</b>          | To deliver outperformance relative to the benchmark after fees over a rolling three year period.                        |
| <b>Benchmark</b>                     | S&P/ASX 300 A-REIT (Sector) (TR)  |
| <b>Number of stocks</b>              | 8 - 15 (14 as at 29 February 2024)  |
| <b>Sector limits</b>                 | Australian Property 90 - 98%, Cash 2 - 10%  |
| <b>Dividend Yield</b>                | 3.77% <sup>#</sup>  |

#### Top 10 holdings

| Code | Name                  | Weight |
|------|-----------------------|--------|
| GMG  | Goodman Group         | 29.85% |
| SCG  | Scentre Group         | 11.89% |
| SGP  | Stockland             | 10.41% |
| DXS  | Dexu                  | 6.70%  |
| CHC  | Charter Hall Group    | 6.64%  |
| VCX  | Vicinity Centres      | 6.55%  |
| GPT  | GPT Group             | 4.74%  |
| MGR  | Mirvac Group          | 3.36%  |
| NSR  | National Storage REIT | 2.81%  |
| DXI  | Dexu Industria REIT   | 2.05%  |

Source: Pendal as at 29 February 2024

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

| Code | Name                | Weight |
|------|---------------------|--------|
| SGP  | Stockland           | 3.17%  |
| CHC  | Charter Hall Group  | 2.64%  |
| DXI  | Dexu Industria REIT | 1.64%  |
| VCX  | Vicinity Centres    | 1.47%  |
| DXS  | Dexu                | 1.35%  |

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

| Code | Name                                   | Weight |
|------|--|--------|
| GMG  | Goodman Group                          | -5.09% |
| MGR  | Mirvac Group                           | -2.46% |
| RGN  | Region Group (not held)                | -1.74% |
| CLW  | Charter Hall Long WALE REIT (not held) | -1.68% |
| INA  | Ingenia Communities Group (not held)   | -1.23% |

Source: Pendal as at 29 February 2024

<sup>#</sup>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            | 4.18%         | 17.41%        | 12.71%        | 15.53%       | 11.55%        | 7.98%         | 8.30%                   |
| S&P/ASX 300 A-REIT (Sector) (TR) | 4.75%         | 18.11%        | 12.83%        | 15.05%       | 10.39%        | 6.02%         | 7.15%                   |
| <b>Active return</b>             | <b>-0.57%</b> | <b>-0.71%</b> | <b>-0.12%</b> | <b>0.48%</b> | <b>1.17%</b>  | <b>1.96%</b>  | <b>1.15%</b>            |

Source: Pendal as at 29 February 2024

\*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>RGN</i> | <i>Region Group (not held)</i>                | <i>0.14%</i> |
| <i>WPR</i> | <i>Waypoint REIT Ltd. (not held)</i>          | <i>0.12%</i> |
| <i>MGR</i> | <i>Mirvac Group</i>                           | <i>0.11%</i> |
| <i>CNI</i> | <i>Centuria Capital Group (not held)</i>      | <i>0.11%</i> |
| <i>CLW</i> | <i>Charter Hall Long WALE REIT (not held)</i> | <i>0.09%</i> |

### Top 5 detractors - monthly

| Code       | Name                                  | Value Added   |
|------------|---------------------------------------|---------------|
| <i>GMG</i> | <i>Goodman Group</i>                  | <i>-0.36%</i> |
| <i>SGP</i> | <i>Stockland</i>                      | <i>-0.21%</i> |
| <i>DXS</i> | <i>Dexus</i>                          | <i>-0.15%</i> |
| <i>VCX</i> | <i>Vicinity Centres</i>               | <i>-0.12%</i> |
| <i>HMC</i> | <i>HMC Capital Limited (not held)</i> | <i>-0.11%</i> |

### Top 5 contributors - 1 year

| Code       | Name                                      | Value Added  |
|------------|---|--------------|
| <i>MGR</i> | <i>Mirvac Group</i>                       | <i>0.42%</i> |
| <i>GPT</i> | <i>GPT Group</i>                          | <i>0.40%</i> |
| <i>CMW</i> | <i>Cromwell Property Group (not held)</i> | <i>0.34%</i> |
| <i>RGN</i> | <i>Region Group (not held)</i>            | <i>0.32%</i> |
| <i>BWP</i> | <i>BWP Trust (not held)</i>               | <i>0.29%</i> |

### Top 5 detractors - 1 year

| Code       | Name                                  | Value Added   |
|------------|---------------------------------------|---------------|
| <i>CHC</i> | <i>Charter Hall Group</i>             | <i>-0.50%</i> |
| <i>GMG</i> | <i>Goodman Group</i>                  | <i>-0.46%</i> |
| <i>HMC</i> | <i>HMC Capital Limited (not held)</i> | <i>-0.39%</i> |
| <i>DXS</i> | <i>Dexus</i>                          | <i>-0.37%</i> |
| <i>ARF</i> | <i>Arena REIT</i>                     | <i>-0.25%</i> |

Source: Pendal as at 29 February 2024

*Underweight positions are in italics.*

## Strategy performance and outlook

The model portfolio finished behind the index in February. The underweight in Goodman Group and overweight in Stockland detracted.

The AREIT sector is priced on an FY24 dividend yield of 4.1%, a 2bp spread over 10 year bonds and forward PE of 17x. AREIT prices have recovered strongly, although continue to price 60-70bp cap rate out shift from book value cap rates of 5.3%, implying asset falls of 12-14%. We are expecting AREIT earnings to bottom in FY24 and recover strongly into FY25, assisted by falling/stable funding costs and top line growth. Gearing levels across the sector sit at 27% and most 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](https://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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