

Pendal Monthly Commentary

Pendal Australian Listed Property Portfolio

October 2023

Market commentary

The AREIT index fell 5.8% in October, following an 8.6% fall in September. The falls were driven by a surge in US 10-year bond yields with the rate touching 5%, a 15 year high and closing the month at 4.93%, up 44bp from the previous month. The surge in US bond yields was driven by persistently strong data and concerns about excessive levels of US Treasury issuance. In Australia data also continues to show economic resilience with strong labour markets and increasing energy costs elevating concerns about inflation. While the RBA was on hold for the fourth month in a row, market expectations for a further rate hike increased with the market pricing a June 24 cash rate of 4.49%. Globally REITs were down 5.9% (in USD) with Australian the worst performing and Japan the best (-2.9%).

The best performing stocks for the month were Vicinity Centres (0.3%) following its quarterly update showing strong releasing spreads (+4.5%) and resilient retail sales, Scentre Group (-1.2%) driven by Vicinity's solid data and Region Group (-2.7%) following strong sales +4.1% and flagging future asset sales. The worst performing stocks for the month were Mirvac Group (-14.6%) following the acquisition of Serenitas (levering up the balance sheet) and weaker than expected residential sales, Cromwell Group (-13.5%) following news that the proposed merger of one of its funds had fallen through and Dexs Property Group (-11.2%) with office stocks most hurt by rising bond yields as well as news that CEO Darren Steinberg is stepping down.

It was a busy month for news flow with a number quarterlies released with the residential REITs (Stockland and Mirvac) showing retail sales resilience but weaker residential net deposits, the retail REITs (VCX, RGN) showing solid retail sales and office REITs (DXS, GOZ) showing elevated office incentives. Mirvac also announced the acquisition of a 47.5% stake in Serenitas, a land lease business for \$1B. Mirvac will fund its \$300M investment with debt.

Employment increased modestly over the month +3k, the participation rate declined slightly, and unemployment increased to 3.7%. The RBA left the cash rate at 4.1%.

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 (14 as at 31 October 2023)
Sector limits	Australian Property 90 - 98%, Cash 2 - 10%
Dividend Yield	5.06% [#]

Top 10 holdings

Code	Name	Weight
GMG	Goodman Group	29.83%
SCG	Scentre Group	12.06%
SGP	Stockland	10.66%
DXS	Dexs	7.66%
VCX	Vicinity Centres	7.45%
CHC	Charter Hall Group	5.50%
MGR	Mirvac Group	3.64%
WPR	Waypoint REIT Ltd.	3.27%
NSR	National Storage REIT	3.23%
GPT	GPT Group	3.11%

Source: Pendal as at 31 October 2023

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

Code	Name	Weight
SGP	Stockland	3.29%
WPR	Waypoint REIT Ltd.	2.03%
CHC	Charter Hall Group	1.92%
DXI	Dexs Industria REIT	1.75%
VCX	Vicinity Centres	1.71%

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

Code	Name	Weight
GPT	GPT Group	-2.94%
MGR	Mirvac Group	-2.62%
RGN	Region Group (not held)	-1.97%
CLW	Charter Hall Long WALE REIT (not held)	-1.75%
BWP	BWP Trust (not held)	-1.37%

Source: Pendal as at 31 October 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	-5.50%	-10.89%	-9.13%	-2.88%	4.44%	4.56%	5.40%
S&P/ASX 300 A-REIT (Sector) (TR)	-5.72%	-12.01%	-10.33%	-3.95%	2.94%	2.28%	4.12%
Active return	0.22%	1.12%	1.20%	1.07%	1.49%	2.28%	1.28%

Source: Pendal as at 31 October 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>MGR</i>	<i>Mirvac Group</i>	<i>0.26%</i>
<i>CNI</i>	<i>Centuria Capital Group (not held)</i>	<i>0.09%</i>
VCX	Vicinity Centres	0.08%
<i>GPT</i>	<i>GPT Group</i>	<i>0.04%</i>
<i>HMC</i>	<i>HMC Capital Limited (not held)</i>	<i>0.04%</i>

Top 5 contributors - 1 year

Code	Name	Value Added
<i>CMW</i>	<i>Cromwell Property Group (not held)</i>	<i>0.36%</i>
<i>GOZ</i>	<i>Growthpoint Properties Australia (not held)</i>	<i>0.25%</i>
SGP	Stockland	0.24%
<i>CNI</i>	<i>Centuria Capital Group (not held)</i>	<i>0.24%</i>
<i>GPT</i>	<i>GPT Group</i>	<i>0.22%</i>

Source: Pendal as at 31 October 2023

Underweight positions are in italics.

Top 5 detractors - monthly

Code	Name	Value Added
SGP	Stockland	-0.17%
DXS	Dexus	-0.09%
CHC	Charter Hall Group	-0.06%
<i>RGN</i>	<i>Region Group (not held)</i>	<i>-0.06%</i>
<i>RFF</i>	<i>Rural Funds Group (not held)</i>	<i>-0.04%</i>

Top 5 detractors - 1 year

Code	Name	Value Added
CHC	Charter Hall Group	-0.79%
WPR	Waypoint REIT Ltd.	-0.28%
SCG	Scentre Group	-0.18%
<i>RGN</i>	<i>Region Group (not held)</i>	<i>-0.17%</i>
NSR	National Storage REIT	-0.14%

Strategy performance and outlook

The portfolio finished ahead of its index (before fees) in October. The largest positive contributions came from underweights in Mirvac and Centuria Capital Group, as well as the overweight in Vicinity centres. The largest drag came from the overweight in Stockland.

The AREIT sector is priced on an FY24 dividend yield of 5.1%, 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 most interest rate headwinds abating. Gearing levels across the sector sit at 28% 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 stock 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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