

Pendal Property Securities Fund

ARSN: 087 593 584

Equity Strategies

31 October 2023

About the Fund

The Pendal Property Securities Fund (**Fund**) invests primarily in Australian listed property securities including listed property trusts, developers and infrastructure investments. In addition, up to 15% of the Fund can be invested in international listed property securities and around 5% of the Fund will generally be invested in unlisted property securities.

Investment Return Objective

The Fund aims to provide a return (before fees, costs and taxes) that exceeds the S&P/ASX 300 A-REIT (Sector) (TR) Index over the medium to long term. The suggested investment timeframe is five years or more.

Investment Style

Pendal's property securities investment style is active, bottom-up and valuation-driven with stock selection driven by absolute valuations.

Investment Philosophy

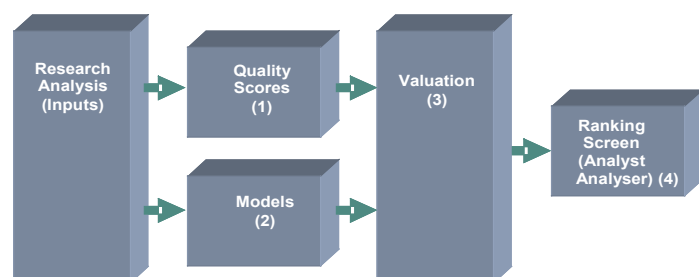
Pendal's investment philosophy is based on the beliefs that:

- market inefficiencies provide opportunities for well researched and disciplined investors to identify and purchase securities that are mispriced compared to what we consider to be their fundamental value;
- quality companies will outperform over time. Pendal's Listed Property Team place a high emphasis on quality scores to identify the best business franchises; and
- active investment management will outperform passive alternatives over a full market cycle.

Investment Process

The Property Securities investment process starts with comprehensive research utilising a range of proprietary valuation methodology and continues to four steps:

1. Scoring of quality factors
2. Financial modelling
3. Valuation
4. Stock Ranking



Environmental, social and governance (ESG) elements are incorporated into our investment process through the "Quality Scores". Examples of such ESG criteria include environmental performance (e.g. ABGR and NABERS environmental ratings); leading sustainability practices such as community and greenspace areas in residential projects as well as management's approach to addressing the risks (and opportunities) associated with climate change and the transition to a low carbon environment.

Investment Team

Pendal's Head of Property Securities, Peter Davidson has over 39 years industry experience and is supported by one portfolio manager/analyst and a specialist LPT dealer. The team also draws on the resources of Pendal's other specialist teams: Multi-Asset, Equity and Income & Fixed Interest.

Performance

(%)	Total Returns		Benchmark
	(post-fee)	(pre-fee)	Return
1 month	-5.40	-5.35	-5.72
3 months	-10.30	-10.15	-12.01
6 months	-8.77	-8.47	-10.33
1 year	-0.87	-0.23	-3.95
2 years (p.a)	-8.42	-7.83	-9.04
3 years (p.a)	2.90	3.57	2.94
5 years (p.a)	4.25	4.92	2.28
Since Inception (p.a)	6.78	7.57	6.30

Source: Pendal as at 31 October 2023

"Post-fee" returns assume reinvestment of distributions and is calculated using exit prices. "Pre-fee" returns exclude the effects of management costs and any taxes. Returns for periods greater than one year are annualised. Fund inception: November 1997.

Past performance is not a reliable indicator of future performance.

Other Information

Fund size (as at 31 October 2023)	\$274 million
Date of inception	November 1997
Minimum investment	\$25,000
Buy-sell spread ¹	For the Fund's current buy-sell spread information, visit www.pendalgroup.com
Distribution frequency	Quarterly
Currency management	Foreign currency exposure is hedged
Cash holdings	Up to 20%
Tracking error guideline	2-5%
APIR code	BTA0061AU

¹ The buy-sell spread represents a contribution to the transaction costs incurred by the Fund, when the Fund is purchasing and selling assets. The buy-sell spread is generally incurred whenever you invest or withdraw funds, and may vary from time to time without notice.

Fees and costs

You should refer to the latest Product Disclosure Statement for full details of the ongoing fees and costs that you may be charged.

Management fee ²	0.65% pa
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² This is the fee we charge for managing the assets and overseeing the operations of the Fund. The management fee is deducted from the Fund's assets and reflected in its unit price.

Risks

An investment in the Fund involves risk, including:

- **Market risk** - The risk associated with factors that can influence the direction and volatility of an overall market, as opposed to security-specific risks. These factors can affect one country or a number of countries.
- **Security specific risk** - The risk associated with an individual asset.
- **International investments risk** – The risk arising from political and economic uncertainties, interest rate movements and differences in regulatory supervision associated with international investments.
- **Liquidity risk** - The risk that an asset may not be converted to cash in a timely manner.

Please read the Fund's Product Disclosure Statement (PDS) for a detailed explanation of each of these risks.

Market review

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 Dexus 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%.

Fund performance

The Fund outperformed for the month. Positive attribution came from underweight positions in Dexus Property Group, Centuria Capital, HMC Capital and GPT Group as well as an overweight position in Vicinity Centres. Overweight positions in National Storage REIT, Stockland Group and Mirvac Group and underweight positions in Scentre Group and Region Group all detracted from performance.

During the month we reduced our overweight positions in HealthCo Healthcare and Wellness REIT, Centuria Industrial REIT and Next DC Limited and increased our underweight in Scentre Group. We redeployed the funds increasing our overweight positions in Goodman Group and Vicinity Centres.

Outlook

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.

For more information please call 1300 346 821,
contact your key account manager or visit pendalgroup.com

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PFSL is the responsible entity and issuer of units in the Pental Property Securities Fund (Fund) ARSN: 087 593 584. A product disclosure statement (PDS) is available for the Fund and can be obtained by calling 1300 346 821 or visiting www.pentalgroup.com. The Target Market Determination (TMD) for the Fund is available at www.pentalgroup.com/ddo. You should obtain and consider the PDS and TMD before deciding whether to acquire, continue to hold or dispose of units in the Fund. An investment in the Fund is subject to investment risk, including possible delays in repayment of withdrawal proceeds and loss of income and principal invested.

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Performance figures are calculated in accordance with the Financial Services Council (FSC) standards. Where performance returns are quoted "Post fees" then this assumes reinvestment of distributions and is calculated using exit prices which take into account management costs but not tax you may pay as an investor. Where performance returns are quoted "Pre fees and tax", they exclude the effects of management costs and any taxes. Past performance is not a reliable indicator of future performance.

If market movements, cash flows or changes in the nature of an investment (e.g. a change in credit rating) cause the Fund to exceed any of the investment ranges or limits specified, this will be rectified by PFSL as soon as reasonably practicable after becoming aware of it. If PFSL does so, it will have no other obligations in relation to these circumstances. The procedures, investment ranges, benchmarks and limits specified are accurate as at the date of this factsheet and PFSL reserves the right to vary these from time to time.