

## Portfolio Description

The fund invests in a broad selection of Australian listed property companies, with between 10 to 20 stocks typically held in the portfolio.

## Investment Strategy

The fund's strategy is to bring together specialist resources in order to identify undervalued Australian real estate securities with minimal downside risk, sustainable earnings growth and good qualitative attributes. The fund uses proprietary forecasting and valuation methodologies and a disciplined portfolio construction process with an over-riding focus on absolute and relative risk. The fund invests predominantly in Australian securities and therefore does not hedge currency exposure.

## Investment Objective

To provide medium-to-long-term capital growth and income to the investor by investing in a portfolio of Australian listed property securities. The Fund aims to outperform the S&P/ASX 200 A-REIT Accumulation Index over rolling three-year periods before fees and taxes.

## Key Investment Personnel and Experience (Industry / Firm)

Stephen Hayes	Head of Property Securities	(1995 / 2012)
Peter Cashmore	Portfolio Manager	(1993 / 2016)

## Product Overview

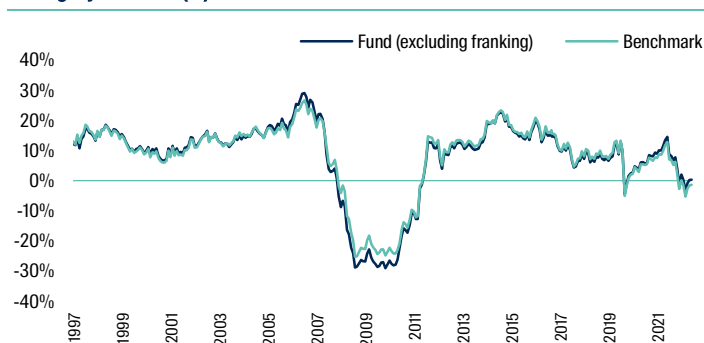
APIR code	FSF0004AU
Inception date	07 July 1994
Fund Size (A\$)	318 million
Benchmark	S&P/ASX 200 A-REIT Accumulation Index
Number of stock holdings	12
Buy / Sell spread	0.10% / 0.10%
Minimum investment (A\$)	5,000
Management fees and costs (p.a.)*	0.81%

\* Information on Management fees and costs (including estimated indirect costs) is set out in the Fund's PDS.

## Performance Summary (%)

Period	3mth	1yr	3yr	5yr	7yr	10yr	SI
Net return	12.2	-19.9	0.3	4.1	5.4	8.1	6.6
Benchmark return	11.5	-20.5	-1.5	3.3	5.0	8.1	7.2
Excess net return	0.7	0.6	1.8	0.8	0.4	0.0	-0.6

## Rolling 3 year return (%)



## Top 5 holdings

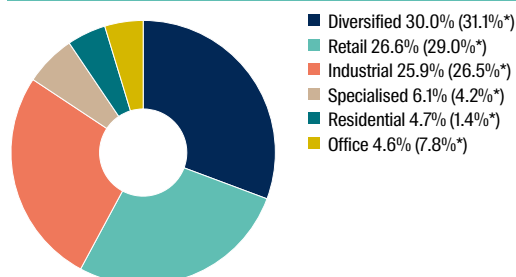
Stock
Goodman Group
GPT
Scentre Group
Stockland
Vicinity Centres

Sorted alphabetically

## Risk Characteristics

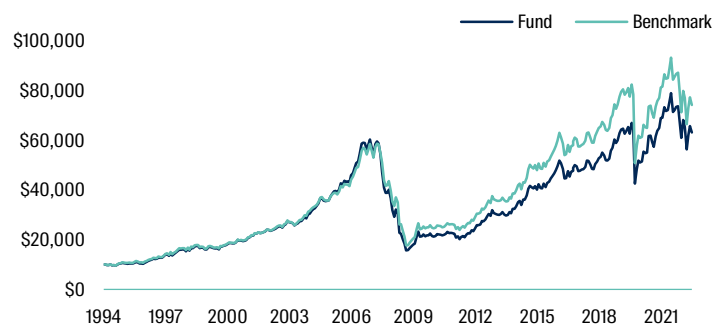
Period	1yr	3yr	5yr	7yr	10yr	SI
Fund standard deviation (%)	27.1	29.6	23.8	21.1	18.8	16.5
Benchmark standard deviation (%)	27.1	30.2	24.3	21.6	19.3	16.6
Tracking error (%)	1.2	1.6	1.6	1.5	1.4	2.2
Fund Sharpe ratio	-0.8	0.0	0.1	0.2	0.3	0.2
Information ratio	1.0	1.6	1.0	0.8	0.6	0.1
Beta	1.0	1.0	1.0	1.0	1.0	1.0
Cashflow adjusted turnover (%)	10.3	14.3	21.6	18.0	15.4	

## Sector Breakdown

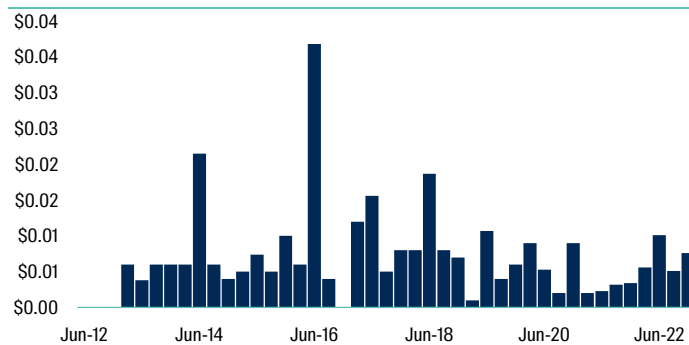


\*Benchmark weight

## Growth of AUD 10,000 Investment Since Inception



## Distributions



## Top 3 attributors to performance (3 months)

Sector	Attr.
Retail REITs	0.37%
Office REITs	0.29%
Residential REITs	0.27%

## Top 3 detractors to performance (3 months)

Sector	Attr.
Industrial REITs	-0.14%
Specialized REITs	-0.04%
Diversified REITs	0.15%

Performance returns are calculated net of management fees and transaction costs. Performance returns for periods greater than one year are annualised. Past performance is not a reliable indicator of future performance.

Data source: First Sentier Investors 2022

Data as at: 31 December 2022

## Market review

The ASX 200 A-REIT Index outperformed the broader market returning 11.5% in the December quarter, with the ASX 200 Index returning +9.4%.

The outperformers for the quarter included Centuria Industrial REIT (+22.00%), Ingenia Communities Group (+20.16%), Region Group (+18.46%). The underperformers for the quarter were Home Consortium (-5.33%), Growthpoint Properties Australia (+0.52%) and Cromwell Property Group (+2.04%).

In December it was reported that housing loan commitments fell -2.7% m/m in October, its ninth consecutive month decline, to be at its lowest level since December 2020. On an annual basis loan commitments are down -17.1% y/y, while the \$3m annualized decline is significantly sharper at -32.4%.

Despite the sharp falls to date, the level of housing loans commitments are still 35.5% higher than pre-pandemic February 2020 levels, though have fallen -22.7% from the January 2022 peak.

Consumer sentiment increased by 3.0% in December, following a sharp -6.9% drop in November. Even with the rise, consumer sentiment remains near record lows in levels terms at 80.3, and is still not far off the lows seen during the GFC (79.0) and during the pandemic (75.6).

## Fund Performance

The fund returned 12.44% in the December quarter, underperforming the ASX 200 A-REIT Index by 64 bps

The fund's holdings in the residential sector and holiday and lifestyle parks sector benefitted performance in the quarter. Despite revising its FY23 guidance to be at the lower end of the previous FY23 range, Ingenia Communities group's forecast EBIT growth of 30% and EPS growth of 5% could see it have forecast FY23 growth above the sector average which led to the stocks outperformance in the quarter. A relaxation on cash rate expectations is causing investors to become more positive on residential housing markets. Similarly, the funds residential holdings in Mirvac and Stockland aided fund performance for the same reason despite facing short to medium term headwinds. The fund's exposures to the childcare sector also benefitted performance in the quarter on no stock specific news.

Similarly, the fund's select exposure to retail AREITs outperformed in the quarter. Region group outperformed as December 2022 revaluations saw its portfolio weighted average capitalisation rate increase by a modest 23bps reflecting both devaluations and acquisitions. The valuation movements underscored the defensive nature of the portfolio's cash flow. Although consumer sentiment is sitting at historically low levels the funds shopping mall exposures benefitted performance in the month against a backdrop of supportive consumer spending behaviour reflecting a balance between strong employment data offset by heightened inflation levels.

Exposures to the office sector through Dexu underperformed the AREIT sector although still benefitted performance in the quarter. The stock underperformed despite a reasonable 1Q23 update, which saw office occupancy and incentives largely hold at June 2022 levels. Dexu continues to be weighed down by negative sentiment towards the office sector with the recovery in physical occupancy stalling at ~60% of pre-COVID levels.

Similarly, the funds self-storage holdings benefitted performance although underperformed the AREIT sector in the quarter. National Storage REIT's operational update saw Q1 Revenue per available metre growth (RevPAM) growth of 1.2% q/q and a modest occupancy decline to 87.9%, implying metrics whilst still broadly positive are moderating.

## Market Outlook and Fund Positioning

The December 2022 revaluations generally saw capitalisation rates soften and despite above cyclical rent growth saw carrying valuations fall modestly.

The September quarter operational updates saw several themes emerging. For residential developers such as Mirvac Group and Stockland residential lot settlements are materially below settlement levels achieved in the previous corresponding period with reasons for this pullback drawn from the impact of rising rates and potential purchasers waiting for interest rates to stabilize. Despite the reported weakness in the September quarter metrics from a lot settlement standpoint both Mirvac Group and Stockland have reaffirmed their initial FY23 earnings and distribution guidance with both AREITs highlighting a 2HFY23 skew to their respective forecast settlement profiles.

To date reported office investment portfolio data is largely consistent with FY22 metrics from the standpoint of: weight average lease expiry (WALE), lease incentive levels and occupancy. Logistics landlords have reported a material uptick in re-leasing spreads and reduced incentives.

AREITs generally are factoring in higher debt costs in FY23 to reflect a higher floating rate (Bank Bill Swap Rate) and whilst increased hedging will partly offset an AREIT's exposure to higher floating rates several AREITs have adopted conservative floating rate forecasts in order to provide a forecast weighted average cost of debt for FY23. FY23 consensus earnings have been revised lower for AREITs expected to face challenges with debt costs, even where rent growth is anticipated to benefit from inflation.

Despite several AREITs holding land-banks at historical costs the rise in construction costs is expected to place downward pressure on initial development returns now that capitalisation rate are not expected to firm materially from current levels. All groups acknowledged construction cost inflation was impacting underlying build costs, but industrial developers pointed to strong rental growth as an offset, while residential land developers noted prior uplifts in land values were an offset.

**Portfolio Beta** measures the portfolio's sensitivity to benchmark movements. Mathematically, it is the covariance of the portfolio vs the benchmark divided by the variance of the benchmark.

**Turnover** is the average of sales and purchases divided by the average portfolio size. **Cashflow Adjusted Turnover** is the same as above, except that the lesser of sales and purchases is used in place of the average of the two. This is to adjust for turnover that is related to investing inflows or selling stocks to meet outflows rather than related to active management of the portfolio.

[www.firstsentierinvestors.com.au](http://www.firstsentierinvestors.com.au)

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