

Resolution Capital Core Plus Property Securities Fund - Series II

RESOLUTION CAPITAL

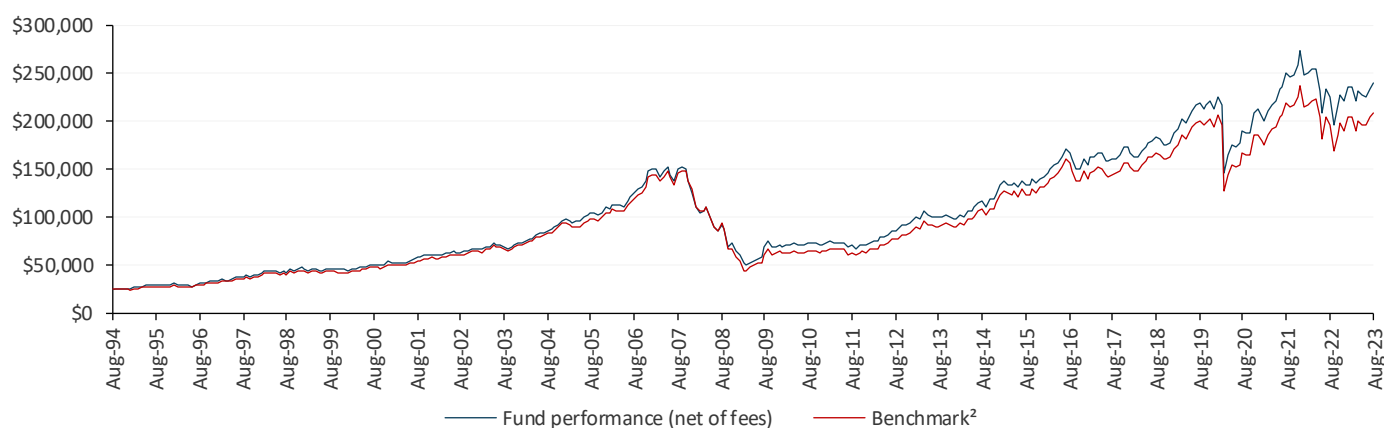
31 August 2023

Performance Summary

	1 Month %	3 Months %	1 Year %	3 Years p.a. %	5 Years p.a. %	10 Years p.a. %	Since Inception* p.a. %
Fund Return (Net Performance) ¹	2.36	5.67	6.17	8.04	5.47	9.19	8.11
Benchmark ² return	2.18	6.05	5.93	7.69	4.39	8.70	7.58
Value Added (Net Performance)	0.18	-0.38	0.24	0.35	1.08	0.49	0.53

Performance numbers less than one year are cumulative while numbers greater than one year are annualised. Past performance is no guarantee of future results.

Growth of \$25,000 invested Since Inception*



¹Please note this Fund was previously known as the Perennial Australian Property Wholesale Trust. Resolution Capital was appointed the investment manager of the Fund, effective 1 November 2014. Past performance is no guarantee of future results.

²Benchmark is S&P/ASX 300 AREIT Total Return Index.

Source: Resolution Capital

Top 5 Weights

Security Name	%
Goodman Group	29.91
Scentre Group	12.48
Mirvac Group	8.18
Vicinity Centres	5.64
Stockland	5.07

Top 5 Contributors

Security Name	%
Goodman Group	3.63
Mirvac Group	0.29
Scentre Group	0.10
Ingenia Communities Group	0.09
Aspen Group	0.05

Bottom 5 Contributors

Security Name	%
Region Group	-0.43
Dexus	-0.28
Charter Hall Group	-0.23
GPT Group	-0.13
Abacus Storage King	-0.11

These are illustrative only and not a recommendation to buy, sell or hold any security.

Fund Details

APIR code	IOF0044AU	Management Fee	0.80% p.a.
ARSN Code	087 719 917	Buy/Sell Spread	+0.20%/-0.20%
*Inception Date	31 August 1994	Distribution Frequency	Quarterly
Fund Size	\$23.5 Million	No. of Stocks	Generally 20 to 40
NAV per Unit	\$1.54	Risk/Return Profile	The Fund's risk band is 5 (medium to high)
Minimum Investment	\$25,000	Platform Availability	https://rescap.com/coreplusfund/seriesii
Benchmark	S&P/ASX 300 AREIT Total Return Index	Investment Timeframe	Medium to long term, being 5 or more years

Market Commentary

The S&P/ASX 300 A-REIT Total Return Index produced a total return of 2.2% for the month ended 31 August 2023, outperforming the Australian equities market (S&P/ASX 300 Total Return Index).

The Reserve Bank of Australia (RBA) held the cash rate at 4.1% in August but noted “some further tightening may be required” depending on economic data. Inflation pressures remain elevated but are receding and the unemployment rose to 3.7% in July.

The relative strong A-REIT sector performance was largely driven by industrial landlord and developer Goodman Group (GMG). Consequently, within A-REITs the industrial sector outperformed, specialist and retail sectors trailed slightly whilst the office and diversified sectors underperformed.

August was filled with FY23 earnings results and maiden FY24 earnings guidance. Outperforming A-REITs included industrial REIT Goodman Group and fund manager HMC Capital (HMC). Goodman reported strong operating fundamentals, guided to a near sector-leading 9% FY24 earnings growth and disclosed a large data centre pipeline underpinning future development earnings. HMC guided to “strong underlying FY24 earnings growth” (no quantification) and reiterated its target for \$10bn of funds under management this year and \$20bn in the medium term, highlighting growth avenues via global healthcare real estate, energy/infrastructure and private credit.

The Portfolio’s underweight positions in GMG and HMC detracted from relative performance.

Underperforming A-REITs included office and industrial landlord Growthpoint (GOZ) and diversified Charter Hall Long WALE REIT (CLW). Both companies have above sector average financial leverage. Higher debt costs are a key drag as GOZ guided to -15% FY24 earnings growth and CLW -7% for FY24 after -8% in FY23.

The Portfolio’s underweight positions in GOZ and CLW contributed to relative performance.

Key A-REIT reporting season themes include:

- Few A-REITs will grow earnings in FY24 owing to higher debt costs overwhelming revenue growth.
- More FY24 earnings guidance misses than beats, generally due to new interest rate hedging crystallising higher FY24 debt costs.
- Office remains challenging. Occupancy was broadly stable though some reported declines. Tenant incentives remain elevated and the tone softened on proposed developments. Several A-REITs are trying to sell assets though buyers remain cautious. Dexis (DXS) sold 1 Margaret St, Sydney for 21% below Jun-22 book value and retained an equity holding given the acquirer could not raise all of the required capital.
- Retail metrics were encouraging. Occupancy is high (>98.5%), leasing spreads improved to flat/positive and retailers are generally in good financial shape heading into a tougher environment. Supply of new centres is low. Sales growth is decelerating into FY24, particularly for discretionary categories, likely impacting occupancy and leasing spreads. Rising property expenses including insurance/utilities/taxes are pressuring net rent growth.
- Industrial conditions remain favourable though there are some signs of demand softening from a high base. Occupancy is high (~99%), supply is delayed due to planning and new deal rents accelerated in 2H23 to >20% above in-place rents. Mirvac (MGR), Stockland (SGP) and GPT continue to prioritise growing industrial exposure, generally via development where returns have improved due to market rent growth.
- Residential sentiment is subdued near-term with more optimism into CY24 if interest rates stabilise. Affordability is constraining demand and first home buyers are absent, hit by lower borrowing capacity. Sales are at historically low levels though sequentially improving from the 2022 trough. Enquiry has lifted but conversion is slow. Buyer defaults are above cyclical averages. Positively, A-REIT residential developers are winning market share, production constraints are easing and construction cost inflation is moderating. Medium-term support from undersupply and migration remains intact. Re-stocking acquisition opportunities are increasingly attractive.
- Headwinds for fund managers persist. Transaction volumes are subdued, downward valuation pressure remains and equity inflows have slowed with some funds needing to satisfy redemptions.
- Self-storage FY24 revenue growth is slowing to long-run ~4-5% from elevated levels during the pandemic years. In FY23 occupancy loss was offset by rate growth. For both National Storage REIT (NSR) and Abacus Storage King (ASK) development is a key growth driver with attractive returns.

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