

Resolution Capital Core Plus Property Securities Fund - Series II

RESOLUTION CAPITAL

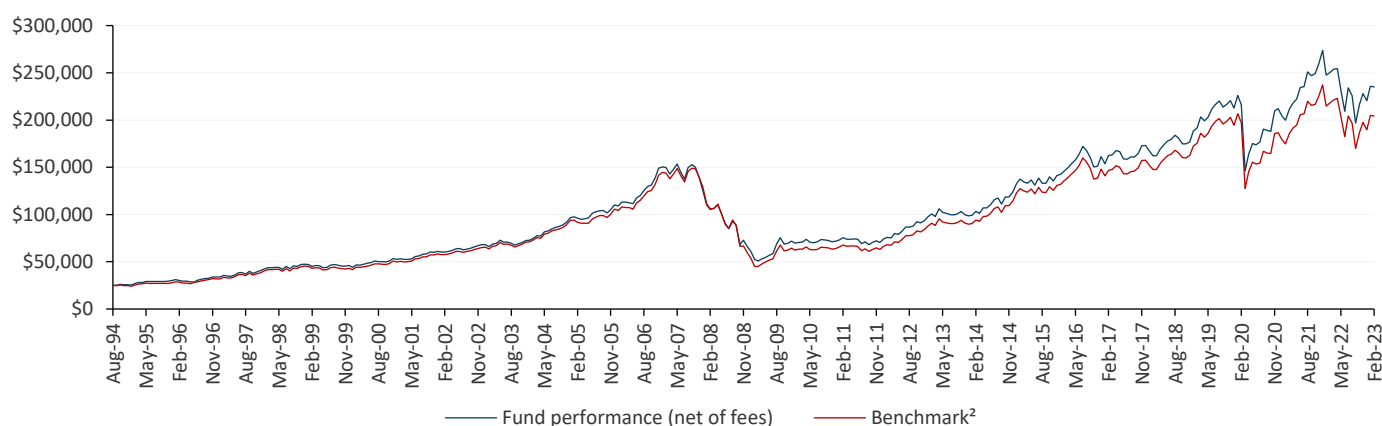
28 February 2023

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	-0.29	3.24	-6.07	2.85	7.70	8.85	8.18
Benchmark ² return	-0.36	3.34	-6.38	1.20	6.71	8.45	7.64
Value Added (Net Performance)	0.07	-0.10	0.31	1.65	0.99	0.40	0.54

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	24.25
Scentre Group	13.88
Vicinity Centres	6.98
Mirvac Group	5.93
Charter Hall Group	4.82

Top 5 Contributors

Security Name	%
National Storage REIT	0.27
Dexus	0.14
Vicinity Centres	0.13
GPT Group	0.12
Arena REIT	0.10

Bottom 5 Contributors

Security Name	%
Ingenia Communities Group	-0.27
Region Group	-0.26
Charter Hall Group	-0.18
Goodman Group	-0.13
Stockland	-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	\$24.9 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 -0.4% for the month ended 28 February 2023, outperforming the Australian equities market by 2.1% (S&P/ASX 300 Total Return Index).

Within A-REITs, office outperformed whilst retail was in line with the benchmark and the diversified and industrial sectors underperformed.

The best performing A-REITs included National Storage REIT (NSR), diversified GPT Group (GPT) and childcare landlord Arena REIT (ARF). A key underperformer was land lease developer Ingenia Communities (INA) which downgraded earnings guidance due to delayed development settlements stemming from wet weather and labour shortages. The Portfolio's overweight positions in NSR and ARF contributed to relative performance whilst positioning in GPT and INA detracted.

February was dominated by earnings releases. Key themes to emerge from A-REIT results include:

- **Earnings guidance** was largely reaffirmed, or previous wide ranges tightened, owing to greater visibility on higher debt costs. Broadly, passive A-REIT earnings growth will be negative in FY23 due to higher debt costs overwhelming rent growth, and many face further headwinds into FY24.
- **Comparable rent growth** is strongest for industrial, self-storage, childcare and A-REITs with a high proportion of inflation-linked lease escalators.
- **Balance sheet leverage** remains moderate, with some exceptions. Interest rate hedging continues to be lifted, crystallising a higher cost of debt.
- Despite higher interest rates, **appraised property devaluations** were only modest at Dec-22 (single digit) given limited transactional evidence. Office was worst hit. Rent growth has partially offset mild capitalisation rate expansion, especially in industrial. Many A-REITs expect further devaluations to eventuate. Hence, some are targeting divestments to de-lever or fund developments.
- **Capital partnering** initiatives remain a focus.
- **Retail** was robust across malls and grocery-anchored shopping centres. Occupancy is high, leasing spreads are positive (grocery-anchored) or negative but improved (malls), tenant sales above 2019 levels and rent to sales ratios sustainable. Most expect tenant sales to slow over 2023 as higher interest rates cause consumption to slow. Vicinity Centres (VCX) was one of the few A-REITs to upgrade FY23 earnings guidance, which like some other retail landlords, was aided by the reversal of previous provisioning for COVID unpaid rent.
- **Office** remains challenged and the outlook cautious. Landlords lack pricing power as market vacancy is elevated (~13-15%) and tenant incentives high (~30%). A-REIT occupancy remains at 90-95%, but some like GPT saw this drop. Leasing activity has lifted but smaller tenants remain more active. Bifurcation remains a theme with newer, higher quality buildings with superior amenity outperforming. Physical office attendance remains at only ~60% of pre-COVID levels. Notably, several A-REITs, including Dexus (DXS) and Mirvac (MGR), have deferred office developments due to soft market conditions. Both groups also continue to try to sell office buildings.
- **Industrial** operating conditions remain favourable. Market vacancy is very low (<1%), tenant demand strong and supply moderate. Consequently, A-REIT portfolios are essentially fully occupied with comparable rent growth of ~4% supported by leasing spreads on new lease deals of 10-20% above in place rents. Several A-REITs including Stockland (SGP), GPT and MGR continue to grow industrial exposure via development.
- **Residential development** faces headwinds. Sales in masterplanned communities and apartment developments have fallen 40-50% from recent periods as buyers remain cautious in light of rising interest rates. Land lease volumes have been more resilient. Prices are expected to continue to fall as affordability remains stretched. Wet weather and labour shortages have delayed settlements into FY24 and defaults are expected to rise. Margins remain elevated given previous price growth exceeded construction cost inflation.
- **Self storage** rent growth is decelerating to ~5-7% after an exceptionally strong few years. Rate growth is offsetting occupancy loss. Supply is moderate. NSR and Abacus Property Group (ABP) continue to grow via development. National Storage upgraded earnings growth guidance from at least 5% to at least 8.5%. ABP has proposed to spin off its \$3bn storage portfolio to create an externally managed storage REIT.
- **Fund managers** reported slowing transaction activity and equity inflows. This combined with potential property devaluations present headwinds to earnings growth.

Investor Contact Details

Pinnacle Investment Management

Email: service@pinnacleinvestment.com

Phone: 1300 010 311

Adviser Contact Details

Pinnacle Investment Management

Email: distribution@pinnacleinvestment.com

Phone: 1300 010 311

Disclaimer: This communication is prepared by Resolution Capital Limited ('Resolution Capital') (ABN 50 108 584 167, AFSL 274491) as the investment manager of the Resolution Capital Core Plus Property Securities Fund - Series II (ARSN 087 719 917) ('the Fund'). Pinnacle Fund Services Limited ('PFSL') (ABN 29 082 494 362, AFSL 238371) is the product issuer of the Funds. PFSL is not licensed to provide financial product advice. PFSL is a wholly-owned subsidiary of the Pinnacle Investment Management Group Limited ('Pinnacle') (ABN 22 100 325 184). The Product Disclosure Statement ('PDS') and Target Market Determination ('TMD') of the Fund are available via the links below. Any potential investor should consider the PDS and TMD before deciding whether to acquire, or continue to hold units in, the Fund.

Links to the Product Disclosure Statement: [IOF0044AU](#), Links to the Target Market Determination: [IOF0044AU](#). For historic TMD's please contact Pinnacle client service Phone 1300 010 311 or Email service@pinnacleinvestment.com. This communication is for general information only. It is not intended as a securities recommendation or statement of opinion intended to influence a person or persons in making a decision in relation to investment. It has been prepared without taking account of any person's objectives, financial situation or needs. Any persons relying on this information should obtain professional advice before doing so. Past performance is for illustrative purposes only and is not indicative of future performance. Whilst Resolution Capital, PFSL and Pinnacle believe the information contained in this communication is reliable, no warranty is given as to its accuracy, reliability or completeness and persons relying on this information do so at their own risk. Subject to any liability which cannot be excluded under the relevant laws, Resolution Capital, PFSL and Pinnacle disclaim all liability to any person relying on the information contained in this communication in respect of any loss or damage (including consequential loss or damage), however caused, which may be suffered or arise directly or indirectly in respect of such information. This disclaimer extends to any entity that may distribute this communication. Any opinions and forecasts reflect the judgment and assumptions of Resolution Capital and its representatives on the basis of information available as at the date of publication and may later change without notice. Any projections contained in this presentation are estimates only and may not be realised in the future. Unauthorised use, copying, distribution, replication, posting, transmitting, publication, display, or reproduction in whole or in part of the information contained in this communication is prohibited without obtaining prior written permission from Resolution Capital. Pinnacle and its associates may have interests in financial products and may receive fees from companies referred to during this communication.