

Resolution Capital Core Plus Property Securities Fund - Series II



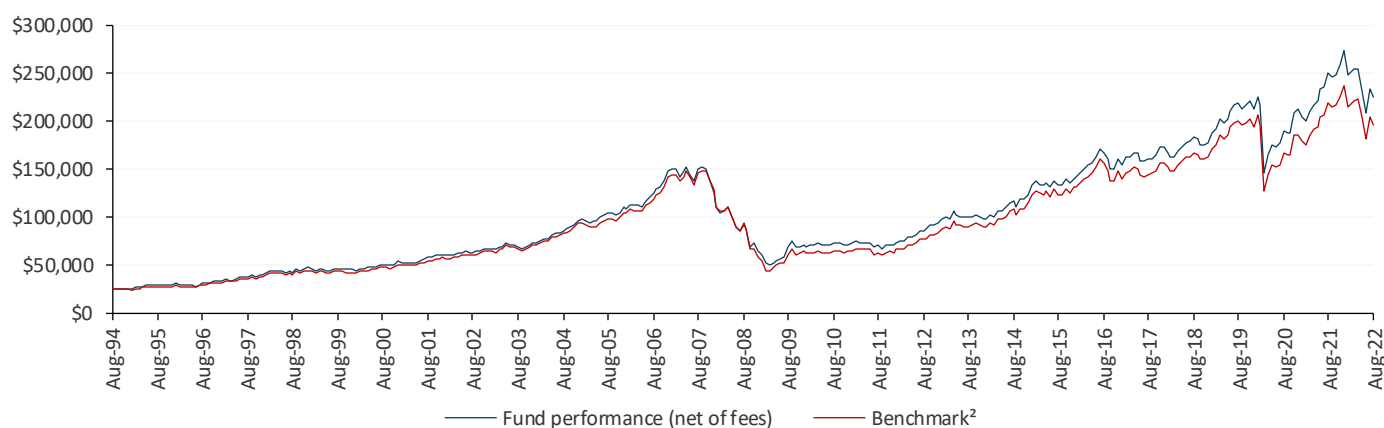
31 August 2022

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	-3.36	-2.39	-9.97	0.90	7.05	10.06	8.18
Benchmark ² return	-3.63	-3.47	-10.52	-0.78	6.24	9.75	7.64
Value Added (Net Performance)	0.27	1.08	0.55	1.68	0.81	0.31	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	23.48
Scentre Group	13.26
Mirvac Group	7.17
Vicinity Centres	6.10
Charter Hall Group	5.39

Top 5 Contributors

Security Name	%
Scentre Group	0.52
Charter Hall Group	0.32
Aspen Group	0.05
Property For Industry	0.01
Carindale Property Trust	0.00

Bottom 5 Contributors

Security Name	%
Goodman Group	-1.24
Dexus	-0.43
Arena REIT	-0.41
Shopping Centres Australasia	-0.29
Stockland	-0.26

Fund Details

APIR code	I0F0044AU	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	\$24.2 Million	No. of Stocks	Generally 20 to 30
NAV per Unit	\$1.49	Investment Manager	Resolution Capital
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 -3.6% for the month ended 31 August 2022, underperforming the Australian equities market by 480bps (S&P/ASX 300 Total Return Index).

Globally, U.S. central bank commentary caused bond yields to rise. Locally, the Reserve Bank of Australia raised the cash rate again by 0.5% to 1.85%, the highest level since 2016, with further increases expected.

Within A-REITs, retail, diversified and self-storage outperformed whilst industrial and office underperformed.

August was marked by financial results season. Key A-REIT themes to emerge include:

Earnings outlook negatively impacted by higher finance costs:

- 2023 earnings growth will be negative for several A-REITs largely as a consequence of higher debt finance costs associated with floating interest rate debt.
- Many A-REITs implemented a reactive plan to increase interest rate hedging for coming periods.

Retail: Grocery anchored retail remains resilient with high occupancy, positive leasing spreads and more supermarkets paying turnover rent. For malls, occupancy lifted and leasing spreads improved, albeit remain negative. Tenants reported retail sales/basket sizes are above pre-COVID levels. CBD retail trading continues to lag in light of absent office workers. Scentre Group (SCG) introduced maiden calendar year 2022 earnings growth guidance of 14%, whilst Vicinity Centres (VCX) is guiding to 10-15% underlying growth in FY23.

Office: Vacancy and tenant incentives remain elevated but are stabilising in some markets. Medium term tenant space requirements remain unclear with few large corporates making decisions, though there's limited evidence of downsizing to date. Higher quality buildings are outperforming and numerous A-REITs intend to develop new buildings to satisfy tenant demand for improved amenities and work environments. Dexus (DXS) is guiding to an FY23 dividend 4.6% lower than FY22.

Industrial: Operating conditions are strong with low vacancy and robust tenant demand leading to accelerating double-digit market rent growth. Numerous A-REITs have increased development pipelines. Goodman Group (GMG) delivered 24% earnings growth in FY22 and is guiding to 11% in FY23.

Residential trading: Rising interest rates are dampening home buyer enquiry and sales of apartments and land. Mirvac (MGR) and Stockland (SGP) acknowledged the increased risk of falling prices and purchaser defaults. Positively, embedded margins remain healthy given historic price growth. Land lease communities are proving more resilient and demand exceeds supply. Shortages of construction labour remains problematic for developers. Mirvac is guiding to at least 2.6% FY23 earnings growth whilst Stockland (SGP) is guiding to around -4%, dragged down by asset sales and higher taxes.

Fund managers: slowing transaction activity and equity inflows combined with potential devaluations present headwinds to earnings growth. Charter Hall (CHC) is guiding to FY23 earnings 22% below FY22 largely due to lower budgeted performance fees.

Self-storage: FY22 results exceeded expectations. However, from an elevated base, operating conditions for occupancy and rents are decelerating. Growth in revenue per available metre will likely slow to mid-single digits from ~15-20% in FY22. National Storage REIT (NSR) is guiding to FY23 earnings growth of 4.7%.

Childcare, pubs and service stations: Generally defensive characteristics were evident in results. Childcare tenants are financially healthy, pubs are trading well whilst service station REITs are strategically broadening their investment scope to include convenience retail assets or assets in various sectors with triple net leases.

A key contributor to relative performance was an overweight position in diversified REIT Aspen whilst an overweight position in childcare REIT Arena detracted.

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