SG HISCOCK & COMPANY

# SG Hiscock Property Fund

31 August 2023

| **Performance**[1] | Total Net Return | Income Return | Growth Return | ASX 200 A-REIT Accum. |
|---|---|---|---|---|
| 1 month (%) | 1.38% | 0.00% | 1.38% | 2.26% |
| 3 month (%) | 5.71% | 1.93% | 3.78% | 6.13% |
| 6 month (%) | 1.69% | 2.63% | -0.94% | 2.34% |
| 1 year (%) | 6.76% | 4.33% | 2.43% | 6.32% |
| 3 years (% p.a.) | 8.67% | 3.55% | 5.12% | 7.32% |
| 5 years (% p.a.) | 0.97% | 3.51% | -2.54% | 3.97% |
| Inception (% p.a.) | 6.74% | 7.61% | -0.87% | 7.12% |

*[1]Income Return is the return due to distributions paid by the Fund, Growth Return is the return due to changes in initial capital value of the Fund, Total Net Return is the Fund return after the deduction of ongoing fees and expenses and assumes the reinvestment of all distributions.*

*Past performance is not a reliable indicator of future performance.*
*Source: Fidante Partners Limited.*

## Investment objective

To outperform its benchmark, the S&P/ASX 200 A-REIT Accumulation Index, over rolling three-year periods, while providing investors with a quarterly income stream and some capital growth over the medium term (at least three years).

## Investments held

The Fund invests in a diversified portfolio of listed property and property-related securities. The fund can invest up to 20% in global property securities.

## Asset Allocation

| | |
|---|---|
| AREITs | 97.25% |
| Cash | 2.75% |

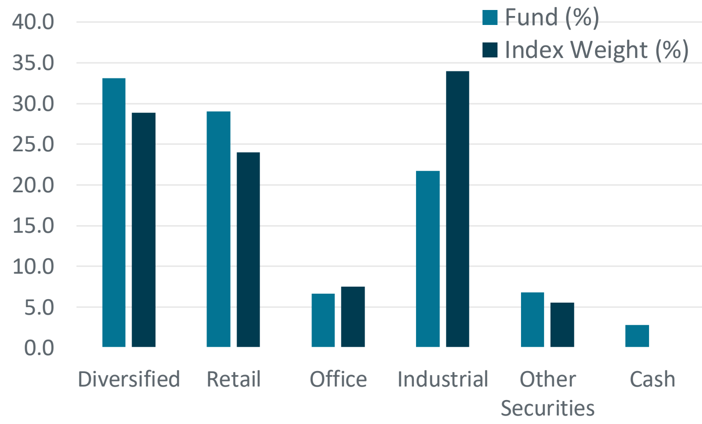
## Key Facts

| | |
|---|---|
| Investment manager | SG Hiscock & Company Ltd. |
| Inception date | 31 Dec 1993 |
| Benchmark | S&P/ASX 200 A-REIT Accum. Index |
| Management fees[2] | 0.78% |
| Fund size | $17.3M |
| Number of holdings | 21 |
| Distributions | Quarterly |
| Buy/sell spread | +0.25/ -0.25% |
| Minimum initial investment | $10,000 |
| Base currency | AUD |
| APIR | CRS0007AU |
| SIV | Compliant |
| mFund code | n/a |
| Domicile | Australia |
| | **Unit price** |
| Application | $0.8336 |
| Withdrawal | $0.8294 |
| | **Distribution cpu** |
| 30-Sept-22 | 0.66 |
| 31-Dec-22 | 0.46 |
| 31-Mar-23 | 0.61 |
| 30-Jun-23 | 1.45 |

*[2] Includes estimated GST payable, after taking into account Reduced Input Tax Credits ("RITC").*

## Asset Allocation

| End of month | Fund (%) | Index Weight (%) |
|---|---|---|
| Diversified | 33.1 | 28.9 |
| Retail | 29.0 | 24.0 |
| Office | 6.7 | 7.5 |
| Industrial | 21.7 | 34.0 |
| Other Securities | 6.8 | 5.6 |
| Cash | 2.8 | |
| **Total** | **100** | **100** |




*Source: SG Hiscock & Company Limited*

| Top 5 Holdings |
|---|
| Goodman Group |
| Scentre Group |
| Stockland Stapled |
| Vicinity Centres |
| Mirvac Group |

*Top 5 holdings represent 64.56% of the total Fund.*

| Top 5 Contributors | Top 5 Detractors |
|---|---|
| Charter Hall Long Wale REIT | Goodman Group |
| DEXUS Property Group | Peet Ltd |
| Region Group | Centuria Office REIT |
| GPT Group | Centuria Capital Group |
| Waypoint REIT Ltd | Vicinity Centres |

## Commentary

We continue to target Australian Real Estate Investment Trusts (AREITs) that provide solid fundamentals over the medium-to-long-term that

are trading attractively relative to other AREITs. Overall we endeavour to invest in entities that offer a combination of:

- A Net Present Value ("NPV") Discount;
- An Internal Rate of Return ("IRR") Premium;
- Ideally a (Real, not manufactured) Free Cashflow Yield Premium; and
- A Lower Price to Net Asset Value ("NAV").

- The **S&P/ASX 200 AREIT Accumulation Index** rose 2.3%. This was driven by **Goodman Group** and the potential opportunities and scale of **developing data centres** in its portfolio, as they theorise how best to take advantage of this long-dated opportunity. The **industrial** subsector was the outperformer both domestically and globally.

- The AREITs once more outperformed both the **Global REITs** (down 2.7%) and the general market (via the **S&P/ASX 300 Accumulation Index**) which was down 0.8%. Only the **discretionary retail** subsector outperformed AREITs. **Utilities** and **staples** were the laggards.
- Both the **ten-year bond yield** (4.03%) and **ten-year real bond yields** (1.54%) were little changed, but this was after the ten-year bond yield was north of 4.2% intra-month. It finished at its lows. This has resulted in the **implied inflation expectations** for the next 10-years remaining relatively stable at ~2.5% pa.

## Top Contributors to the Portfolio Return:

| Month | Return % | Comment |
|---|---|---|
| Charter Hall Long WALE | -13.9 | Gearing surpassing 40% stole the headlines in their FY23 results. The AREIT has commenced selling assets, targeting those that are yielding below their rising cost of debt, in order to make them accretive to earnings. The underweight holding contributed to the relative performance. |
| Dexus Property Group | -5.7 | Delivering a relatively benign result given the majority office exposure. The difficulty in transacting is also seeing trading profits forecast to drop in FY24. Sold 1 Margaret St, Sydney, but had to invest $50 million into the purchaser's fund, in order to secure the deal. Dexus's industrial portfolio has operating metrics have been inferior to peers in terms of like for like rental growth, which is a bit surprising given the apparent portfolio under-renting. The underweight holding contributed to the relative performance. |
| Region Group | -10.7 | The strong performance of their non-discretionary retail assets was superseded by the jump in costs associated with both capital management and operations. A higher proportion of gross leases has negatively impacted Region more imminently. The underweight holding contributed to the relative performance. |

## Negative Contributors to the Portfolio Return:

| Month | Return % | Comment |
|---|---|---|
| Goodman Group | 13.7 | Data centres is a subsector experiencing elevated demand. Goodman Group reiterated that 30% of their work in progress is in data centres. Combined with secured and potential > 3GW of energy, which could have a $30 billion end value. Consideration is also given to being exposed to the operating/infrastructure side of data centres. The market's enthusiasm for this pivot was profound. Overall development volume for Goodman Group moderated down 4% vs prior year and development starts were $6bn in FY23 down 24% and below completions. Guidance for operating EPS |

| | | |
|---|---|---|
| | | growth of 9% was below consensus of 11% (source: JP Morgan). The underweight holding detracted from the relative performance. |
| Peet Limited | -3.6 | Earnings were up 37% on pcp, as the developer looks to have over 80% of its landbank in production by FY25. Peet recommenced their on-market share buy-back in August. The off-benchmark holding detracted from the relative performance. |
| Centuria Office | -1.1 | Present and forecast conditions are not conducive to office landlord with Centuria Office more elevated gearing. This despite conducting asset sales during FY23 to lower gearing, with further sales planned. The overweight holding detracted from the relative performance. |

## Distribution team

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