SG HISCOCK & COMPANY

SGH Property Income Fund

31 January 2024

Performance[1]	Total Net Return	Income Return	Growth Return	CPI+3%	ASX 300 A-REIT Accum.
1 month (%)	1.08	0.00	1.08	0.59	1.21
3 months (%)	24.24	1.40	22.84	1.78	25.07
6 months (%)	5.90	1.93	3.97	3.55	10.05
1 year (%)	3.69	4.98	-1.29	7.10	9.48
3 years (% p.a.)	7.58	4.72	2.86	7.75	7.79
5 years (% p.a.)	3.36	5.56	-2.20	6.50	5.42
7 years (% p.a.)	4.18	7.69	-3.51	5.95	6.86
10 years (% p.a.)	7.34	9.35	-2.01	5.75	9.50
Inception (% p.a.)	2.84	9.04	-6.20	5.74	4.42

[1]Distribution 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.

- We are **index agnostic**, as at times the Index can become heavily concentrated.
- We have an **income bias** to deliver **superior yield** to our investor base vs. the Index.
- We have a bias towards those entities that derive the majority of their earnings from **rent collection.**
- We believe property is **localised** and with the prevalence of both global investors, as well as generalists and passive investing in the AREIT sector, this creates opportunities for experienced, Australian-domiciled managers, with high site visitation and manager engagement.

This Fund has been specifically designed to address these issues and seeks to offer the following:

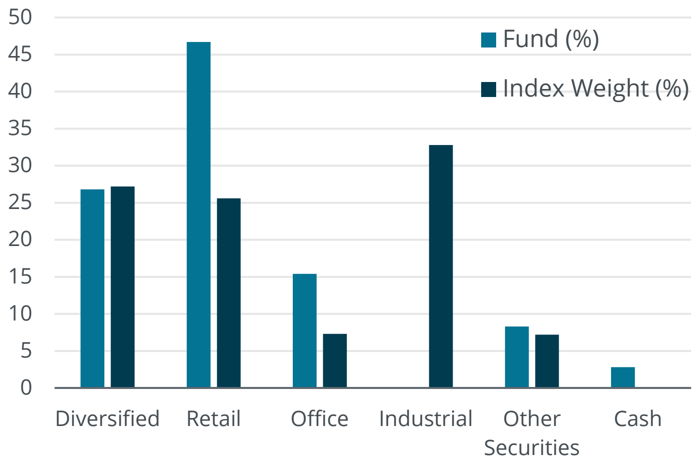
- Target an **income yield** in excess of the index yield, but not at the expense of quality.
- Ideally **lower volatility**.
- A **value-oriented portfolio**.
- A **more diversified** exposure to AREITs – **the largest holding in this Fund will be no larger than 15%**.
- The **benchmark return before fees** for this fund is to achieve a return in excess of **CPI + 3% p.a**. over rolling 5-year periods – a timeframe much more in keeping with property investment.

Key Facts

Investment manager	SG Hiscock & Company Ltd.
Inception date	30 Nov 2005
Benchmark	CPI+3%
Management fees[2]	0.95%
Fund size	$178.7M
Number of holdings	22
Distributions	Quarterly
Buy/sell spread	+0.25/ -0.25%
Minimum initial investment	$20,000
Base currency	AUD
APIR	ETL0119AU
mFund code	SHF03
Domicile	Australia
	Unit price
Application	$0.2999
Net Asset Value	$0.2992
Withdrawal	$0.2985
	Distribution cpu
31-Mar-23	0.1937
30-Jun-23	0.6723
30-Sep-23	0.1801
31-Dec-23	0.3378

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

End of month	Fund (%)	Index Weight (%)
Diversified	26.8	27.2
Retail	46.7	25.6
Office	15.4	7.3
Industrial	0.0	32.8
Other Securities	8.3	7.2
Cash	2.8	
Total	**100**	**100**



Asset Allocation

Metrics	Fund
PNTA	-13.2%
PNAV (Valuers Cap Rates)	-21.4%
AFFO Yield	6.6%
Distribution Yield	5.7%
Valuer Cap Rate	5.5%
Implied Cap Rate	6.6%
Implied Value Decline	-17.8%
Gearing	29.9%
Number of Holdings	22
% in top 5 holdings	52.0%
% in top 10 Holdings	72.8%
Average Mkt Cap ($m)	6,101
Cash	2.8%
12m Turnover	3.2%
12m Standard Deviation	21.3%
Tracking Error	9.7%

	End of month
Number of Stocks in the Portfolio	22
Implied Cap Rate	6.6%
Portfolio Value compared to Underlying Net Asset Value	14.4% Discount

Top 5 Holdings
Stockland
Scentre Group
Vicinity Centres
Charter Hall Retail
GPT Group

Top 5 holdings represent 52% of the total Fund.

Top 5 Contributors	Top 5 Detractors
Stockland	Charter Hall Social Infrastructure REIT
Scentre Group	Abacus Group
Charter Hall Retail	Peet Limited
Dexus Convenience Retail REIT	Centuria Office REIT
GDI Property Group	Centuria Group

Monthly absolute contributors and detractors for November 2023

Overall Performance of the S&P/ASX 300 AREIT Accumulation Index

Accumulation Index	Month %	Quarter %	1 year %
S&P/ASX 300 A-REIT	1.2	25.1	9.5
Diversified Property	1.7	31.0	4.4
Health Care	-7.1	0.6	n.a.
Retail Property	1.7	23.9	4.1
Office Property	1.0	24.9	-3.4
Industrial Property	1.1	23.8	28.0
Residential Property	0.7	14.9	-0.4
Specialised Property	-5.2	15.1	-1.2

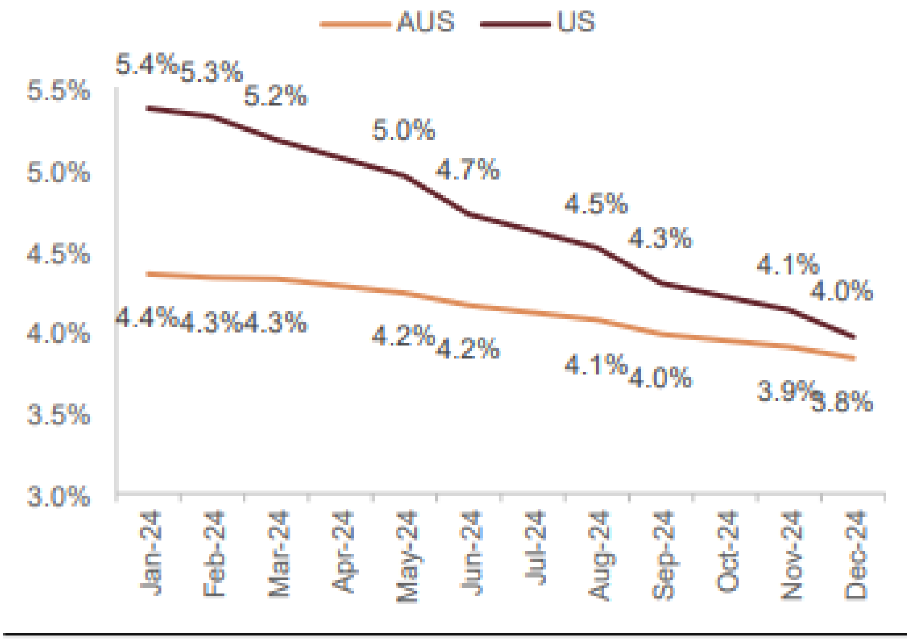
Source: UBS

Month

Following the stellar performance in through the months of November and December AREITs had a more modest month with the **S&P/ASX 300 AREIT Accumulation Index** returning 1.2%.

At the start of January, the market had been building in close to 150 bps of rate cuts in the US. This contrasts with commentary from Federal governor Christopher Waller during January indicating that the Fed's projections for three cuts this year was appropriate and no need to hurry. Consequently, the market marginally recalibrated interest rate cut expectations, while remaining more dovish than the Federal Reserve, with broadly double the quantum of cuts over 2024.

While the RBA has not articulated the potential for rate currents the Australian market has built in relatively benign expectations. Below are the implied cash rates RBA (Aus) and Fed (USA).



Source: Bloomberg, Barrenjoey Research

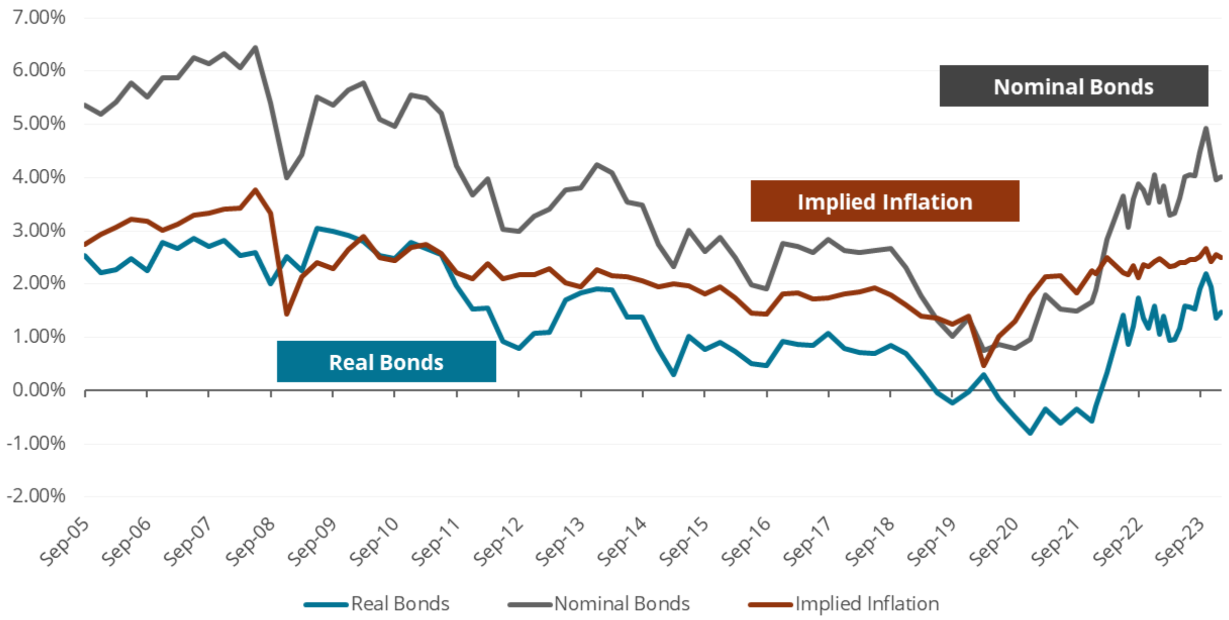
On the 31st of January Australian CPI numbers were released coming in at 0.6% for the Quarter, which was below expectations of 0.8%. This provided positive news for the market and AREITs, which were strong on the day up 2%.

While annual inflation appears persistent at 4.1%, our view is that more recent inflation numbers, such as Q4, should have more focus than the annual rate, as well as consideration to implied inflation expectations, which have also slightly eased.

As at month end Australian 10-year nominal bonds were essentially flat moving from 3.96% to 4.01%. While 10-year Inflation Linked (real) bond yields slightly softened from 1.36% to 1.48%, with implied inflation of 2.50%. While views may vary on the pace and magnitude of rate cuts abroad and locally, it now appears highly likely that we have passed the peak in rates providing a more supportive backdrop generally.

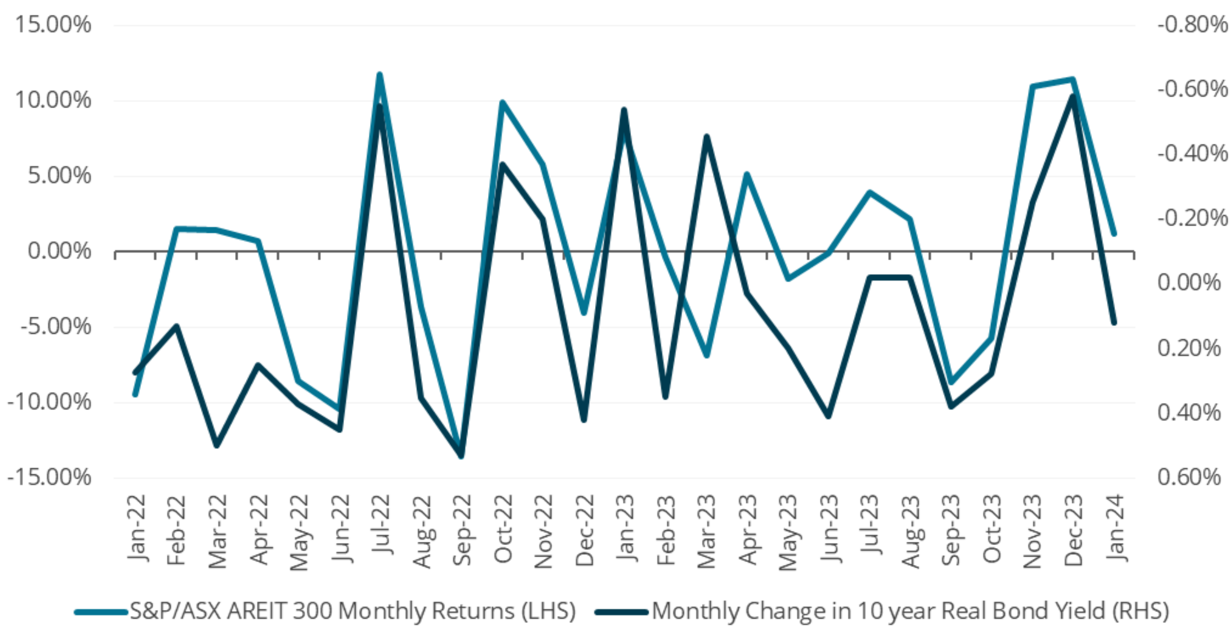
It is interesting to reflect that over the course of 2023 rates were in an upward trajectory at a pace and magnitude that exceeded initial expectations. Notwithstanding this, both AREITs and the broader market delivered favourable returns for investors.

REITs have been an asset class that has been most adversely impacted from rising real bond yields as well as short term rates and consequently, a downward shift is favourable for this asset class. The chart below highlights the trend in nominal bond yields, real bond yields and implied inflation.



Source: SGH, Bloomberg

While the chart below highlights the close relationship of the AREIT sector monthly returns to changes in real bond yields over the period from January 2022 as the inflation ascent manifested.



Source: SGH, Iress.

The month of January is traditionally quiet coinciding with the holiday and the blackout period prior to reporting season.

To us the most interesting news flow was emergence of M&A activity, with Aspen Group (APZ) making an off-market offer for Eureka Group Holdings (EGH). While BWP Trust (BWP) put forward a merger proposal with Newmark Property REIT (NPR).

The common features of both of these proposals are the 100% scrip consideration for REITs that are within closely defined subsectors (in the case of APZ and EGH being accommodation assets and in the case of BWP and NPR being Bunnings Warehouse assets). In both cases the proposing entity had more scale and a stronger balance sheet.

The proposal by APZ was around the prevailing pricing for EGH noting that APZ acquired a significant stake of 13.7% in December 22, which it stated had disturbed the trading price thus not justifying a premium in APZ's view. There was minimal volume or price change over the day of announcement of the merger proposal.

While in the case of BWP, the proposal saw the security price of NPR rally 37% on the day.

Given the discounts within the sector, and in particular smaller AREITs, we would not be surprised to see more activity within the sector over the course of 2024. Furthermore, stabilising pricing in the direct market, with rate cuts could drive privatisations as the year progresses.

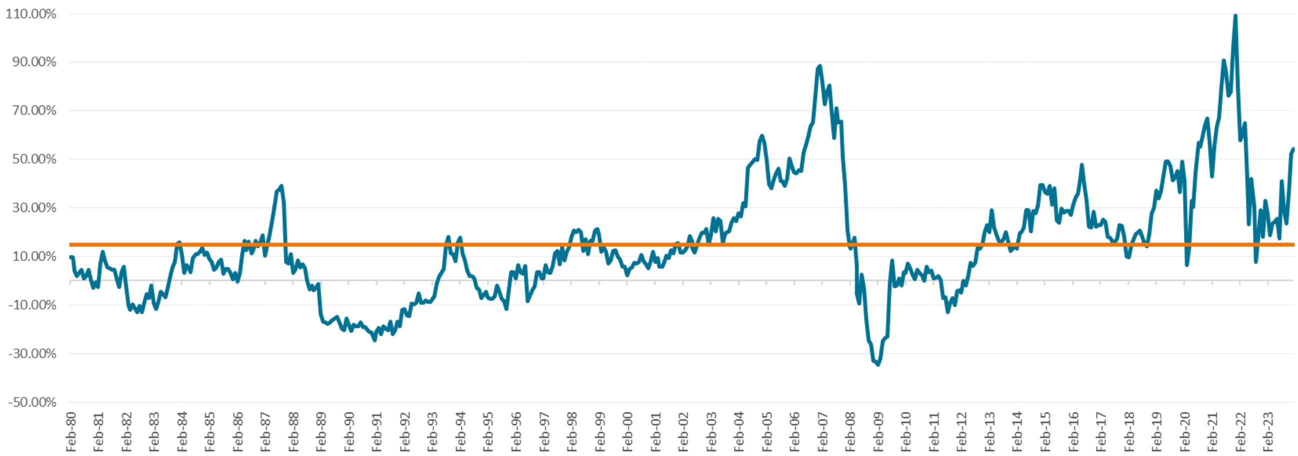
This should favour a value based approach, with exposure to smaller entities.

As we lead into reporting season our expectations are for further capitalisation rate softening albeit at a slower pace. Valuers are becoming more confident with retail valuations given an increase in activity. Positively we are observing transactions around book value which is encouraging while the associated AREITs as is the portfolio trading at a material discount to such pricing.

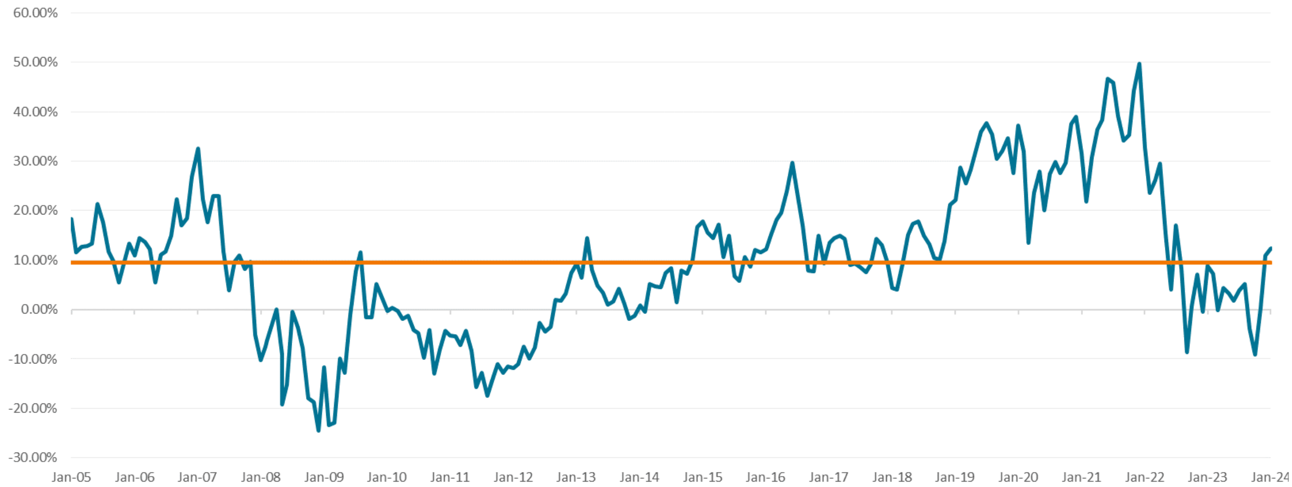
Portfolio Commentary & Strategy

The price to NTA premium of the AREIT sector finished the month circa 54%. The portfolio continues to trade at a substantial discount to both the sector price to NAV and NTA. This is derived utilising our analysis of through-the-cycle capitalisation rates and corporate multiples over the past decade. Assuming current valuer cap rates of 5.1% the price to NAV of the AREIT sector is broadly in line with the long-term average.

Price to NTA



Price to NAV



Source: SGH

We target AREITs providing solid fundamentals over the medium-to-long-term that trade attractively relative to other AREITs. Overall, we aim 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 portfolio's general positioning is towards retail over office and industrial. We favour the convenience, non-discretionary retail exposed AREITs, with their higher exposure towards staples, as they offer superior forecast returns on our analysis, via lower pricing and attractive distribution yields.

These names are carrying gearing levels in the low-30% range, slightly higher than the AREIT sector average but the growth, and stability, of the property cash-flow is something the market may be underappreciating.

Reduced/limited redemption opportunities for investors from unlisted funds remains elevated and ongoing. As a result, any sustained rebound for the fund managers will be challenging in our view.

From a geographic perspective, Perth remains the most favourable economy/market domestically. More so for residential, retail and office, compared to most other parts of Australia.

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Disclaimer: *Equity Trustees Limited ("Equity Trustees") (ABN 46 004 031 298), AFSL 240975, is the Responsible Entity for the SGH property Income Fund ("the Fund"). Equity Trustees is a subsidiary of EQT Holdings Limited (ABN 22 607 797 615), a publicly listed company on the Australian Securities Exchange (ASX: EQT).*

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The Fund's Target Market Determination is available on the SGH website here. A Target Market Determination is a document which is required to be made available from 5 October 2021. It describes who this financial product is likely to be appropriate for (i.e. the target market), and any conditions around how the product can be distributed to investors. It also describes the events or circumstances where the Target Market Determination for this financial product may need to be reviewed.

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