SGH Property Income Fund

29 February 2024

Performance[1]	Total Net Return	Income Return	Growth Return	CPI+3%	ASX 300 A-REIT Accum.
1 month (%)	-2.21	0.00	-2.21	0.59	4.75
3 months (%)	9.63	1.24	8.39	1.78	18.11
6 months (%)	6.22	1.93	4.29	3.55	12.83
1 year (%)	2.01	4.90	-2.89	7.10	15.10
3 years (% p.a.)	6.60	4.68	1.92	7.75	10.40
5 years (% p.a.)	3.36	5.56	-2.20	6.48	6.03
7 years (% p.a.)	3.26	7.62	-4.36	5.98	6.96
10 years (% p.a.)	6.68	9.29	-2.61	5.63	9.55
Inception (% p.a.)	2.71	9.00	-6.29	5.70	4.67

[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. Returns greater than 1 year are annualised.
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:

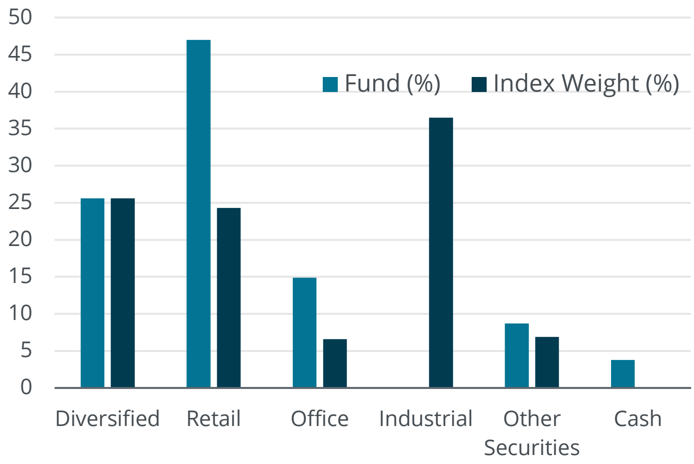
- Target an **income yield** in excess of the index yield, but not at the expense of quality.
- Ideally **lower volatility**.
- A **value-oriented portfolio**.
- A **more diversified** exposure to AREITs – **the largest holding in this Fund will be no larger than 15%**.
- The **benchmark return before 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	$168M
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	$0.2933
Net Asset Value	$0.2926
Withdrawal	$0.2919
	Distribution cpu
31-Mar-23	0.1937
30-Jun-23	0.6723
30-Sep-23	0.1801
31-Dec-23	0.3381

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

End of month	Fund (%)	Sector Weight (%)
Diversified	25.6	25.6
Retail	47.0	24.3
Office	14.9	6.6
Industrial	0.0	36.5
Other Securities	8.7	6.9
Cash	3.8	
Total	**100**	**100**



Asset Allocation

Metrics	Fund
PNTA	-13.8%
PNAV (Valuers Cap Rates)	-21.5%
AFFO Yield	6.7%
Distribution Yield	5.9%
Valuer Cap Rate	5.6%
Implied Cap Rate	6.8%
Implied Value Decline	-17.8%
Gearing	31.1%
Number of Holdings	22
% in top 5 holdings	51.3%
% in top 10 Holdings	71.9%
Average Mkt Cap ($m)	6,184
Cash	3.8%
12m Turnover	2.5%
12m Standard Deviation	0.8%
Tracking Error	9.4%

	End of month
Number of Stocks in the Portfolio	22
Implied Cap Rate	6.8%
Portfolio Value compared to Underlying Net Asset Value	21.5% Discount

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

Top 5 holdings represent 51% of the total Fund.

Top 5 Contributors	Top 5 Detractors
Scentre Group	Centuria Office REIT
Ingenia Communities	Harter Hall Retail
Abacus Storage King	GDI Property
Dexus Convenience	GPT Group
Unibail-Rodamco-Westfield	Vicinity Centres

Monthly absolute contributors and detractors for February 2024

Overall Performance of the AREIT Sector

Accumulation Index	Month %	Quarter %	1 year %
S&P/ASX 300 A-REIT	4.8	18.1	15.1
Diversified Property	-1.7	11.3	3.0
Health Care	1.5	5.9	n.a.
Retail Property	1.1	14.6	5.5
Office Property	-5.6	6.2	-10.5
Industrial Property	16.1	31.2	49.6
Residential Property	9.2	18.4	25.3
Specialised Property	-2.3	4.7	-4.3

Source: UBS

Month

The month of February represented a solid month for the AREIT sector, **with the S&P/ASX 300 AREIT Accumulation Index delivering a 4.75% return**. However, this was not representative of the performance across the breadth of the sector, with only four AREITs outperforming being Goodman Group, HMC Capital, Abacus Storage King and Ingenia Communities Group.

Goodman Group, representing over 30% of the Index, did the heavy lifting, delivering a solid 16.8% return (Global Real Estate Index Inclusion and positive updates on its data centre pipeline assisted this). While delivering strong capital returns, it is worth reflecting that the distribution yield is ~1%, which is not meeting the criteria for income investing, along with index concentration consideration.

The broader equity market as represented by the S&P/ASX 300 Accumulation Index delivered a more modest return of 1%, while Global REITs were very marginally down 0.2%.

Pleasingly, annual inflation continues to come in below expectations 3.4% y/y as at the end of January 24, providing a more conducive barometer for interest rate settings.

While wages came in a touch stronger than expected in 4Q23, rising 0.9% q/q and 4.2% y/y (Bloomberg market consensus 0.9% and 4.1%, respectively), the largest y/y increase since 2009 (source Jarden).

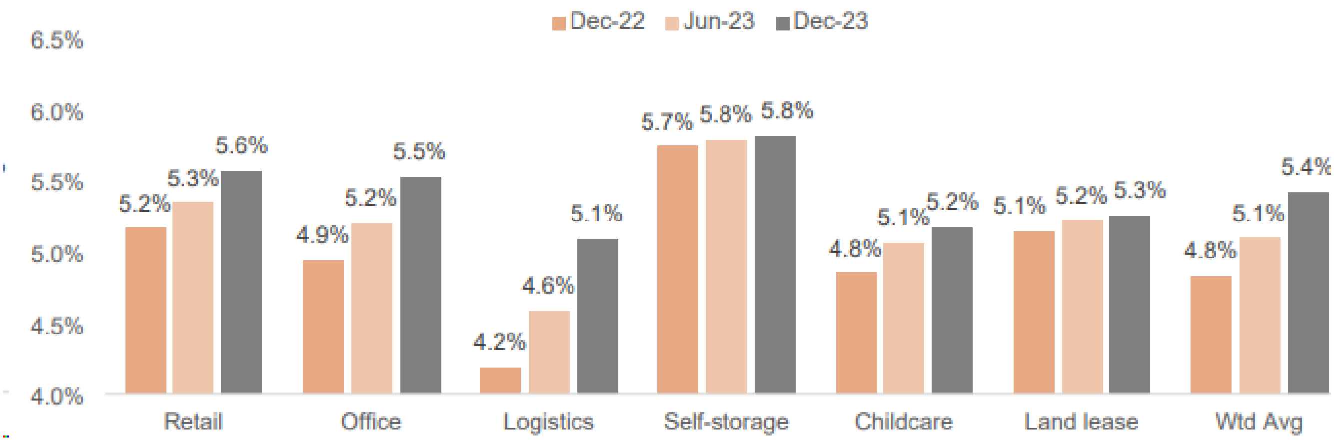
Reporting Season Summary

The month of February featured reporting season, which in terms of fundamentals was inline if not marginally better than our expectations. These can be summarised as below:

- Capitalisation rates to marginally soften albeit at a slower pace
    - (Broadly the same level of expansion as prior 6 months. Refer to below chart, with commentary suggesting less going forward),
- Top line income to hold up well - exception office
    - (Confirmed however, office achieved better outcomes in terms of income growth),
- Residential volumes to be low with long term fundamentals intact by population growth and undersupply
    - (Significant second half skew for settlements, low but improving sales, significant uplift in enquiry)

- Strong leasing outcomes for industrial with some easing of conditions.
    - (Releasing spreads in the order of 40% were reported with signs we are passing the peak in terms of growth)

The chart below highlights capitalisation rate expansion over the past 12 months by subsector.



Source: Barrenjoey

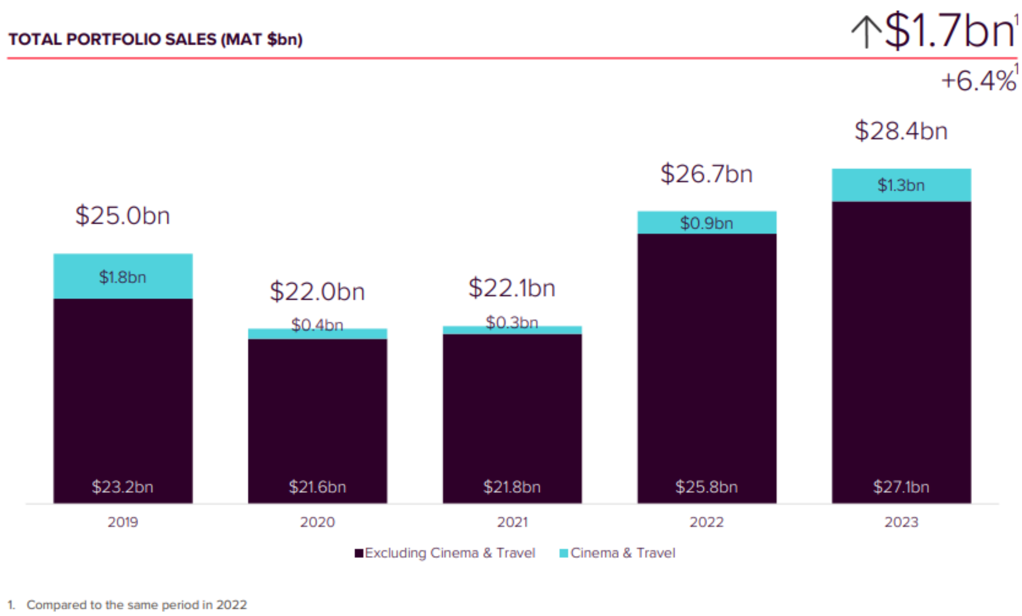
Retail Sector

Retail property experienced moderate sales growth in the December half.

We noted an uplift in, already high, occupancy for the largest retail portfolios of Scentre Group (from 98.1% to 99.2%) and Vicinity Centres (from 98.8% to 99.1%).

Occupancy costs below historical levels is supportive for income growth. As evident by positive leasing spreads from Scentre Group (up 3.6%) and Vicinity Centres (up 3.3%). Scentre Group's net property income growth was up an impressive 8.8% over the reported calendar year.

The chart below highlights the momentum of Scentre Group in terms of total retail sales from 2019. This being the year preceding the pandemic… putting to an end commentary on the death of the retail mall!



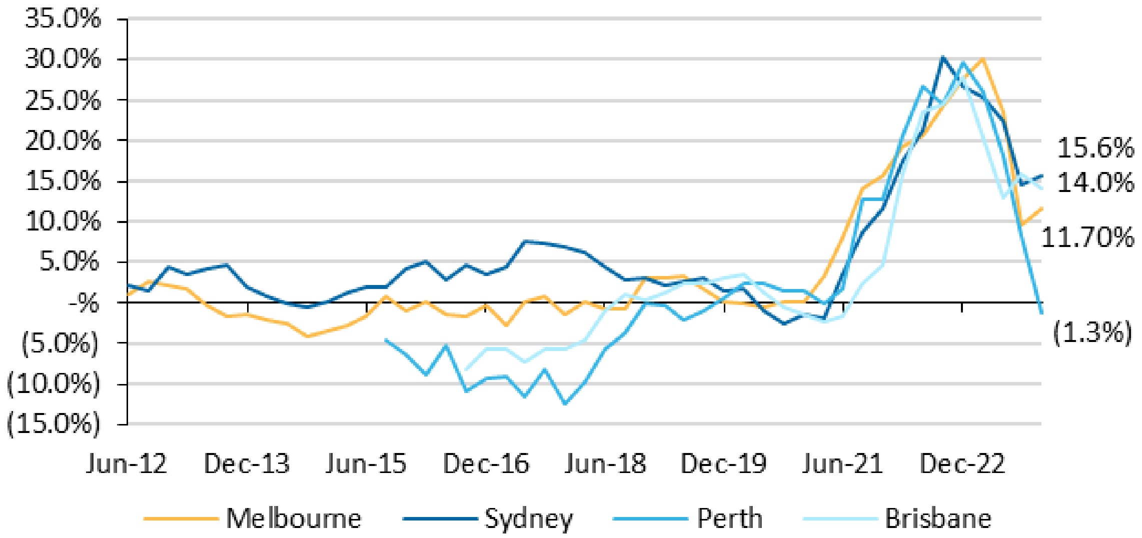
Source: Scentre Group

Logistics Sector

Logistics properties experience steady income growth of around 5%.

While rental reversion has been as high as ~40% there was some signs of caution. David Harrison, CEO of Charter Hall, cautioned on the “reversion romance” in the pricing of industrial assets and commented on the bifurcation of assets.

The chart below highlights the outsized rental growth compared to history and we note the rapid decline in Perth most recently.



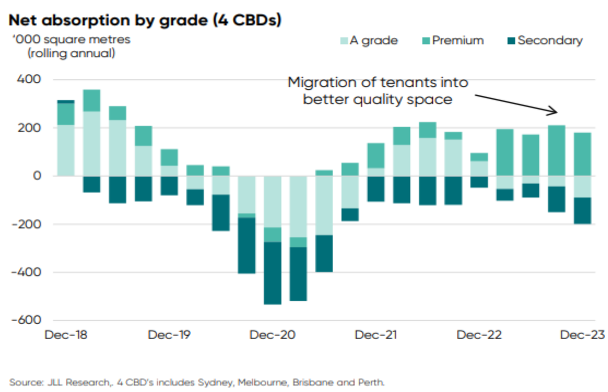
Source: JLL, Macquarie Research, December 2023

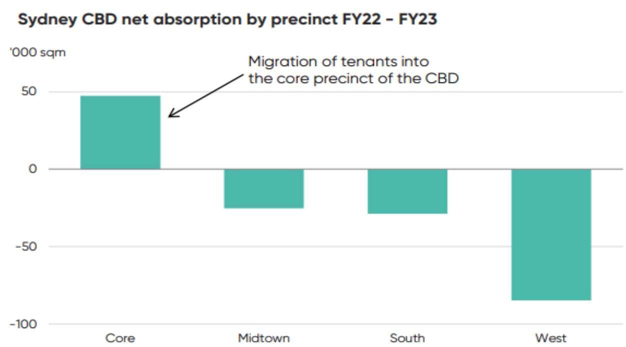
Office Sector

Divergence between prime and secondary office properties persists and we note that several of the suburban markets are outperforming the key CBDs of Melbourne and Sydney. Occupancy held up relatively well given REITs hold quality assets, while property income growth was mostly delivered.

Dexus reports a 4% increase in like-for-like effective office income for the half, while GPT Group sees a marginal fall in comparable income for the year.

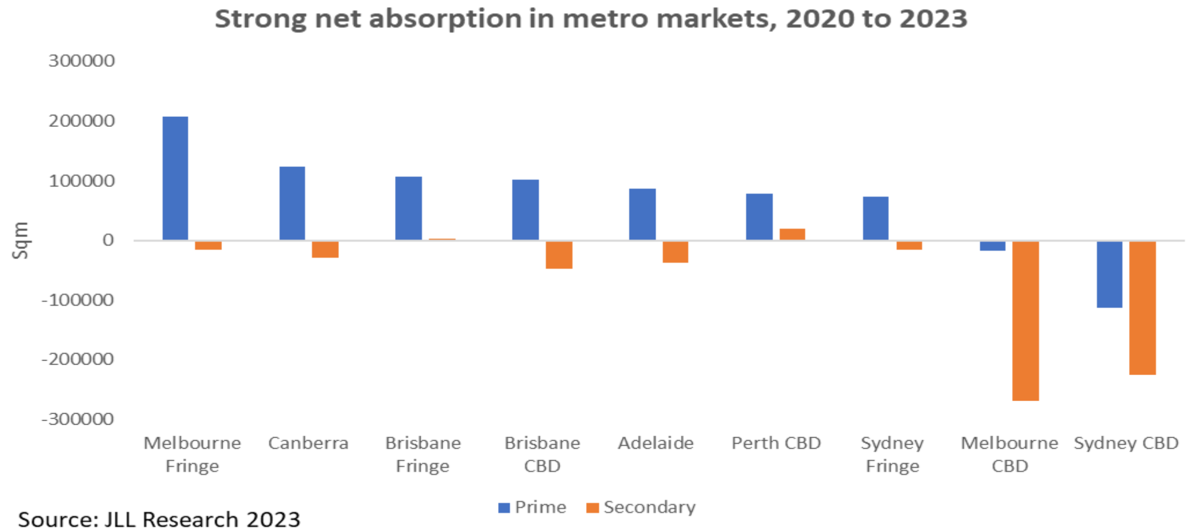
The charts below from Dexus were also interesting highlighting the bifurcation between prime and secondary assets in the Sydney CBD by grade and location, favouring quality buildings in prime locations.





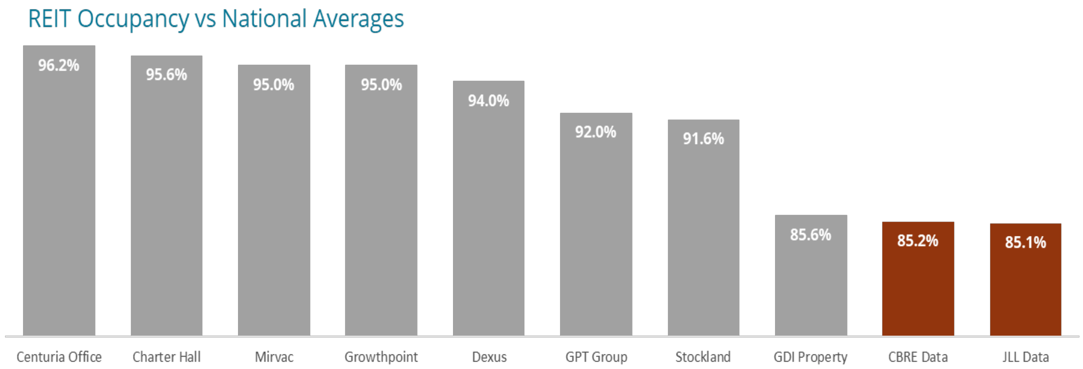
Source: Dexus

Centuria Office highlighted that while prime office is outperforming, the Melbourne and Sydney CBD Markets are weaker compared to other CBDs and that the fringe markets are doing better in terms of net absorption (tenancy demand). Highlighting that affordable rents also come into the equation for occupants.



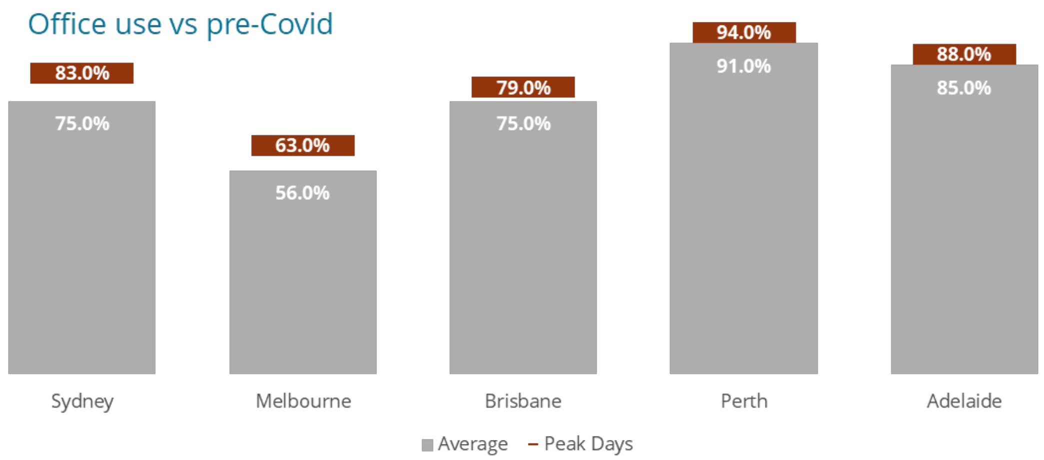
Source: JLL Research 2023

The AREIT vacancy levels are superior to national averages, illustrated by the chart below.



Source: Company data, CBRE and JLL

Return to the Office continues to gather momentum and our anecdotal read is that this has stepped up further in Melbourne in recent weeks.

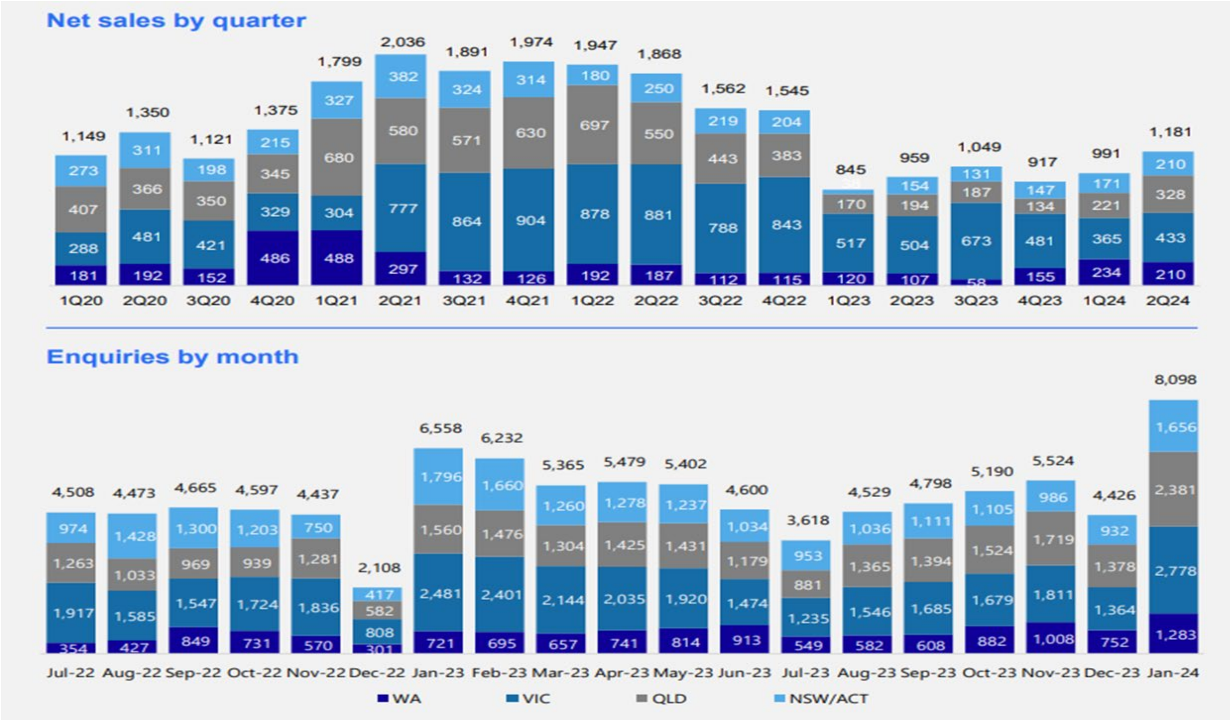


Source: CBRE

Residential Sector

Developers reported lower settlements and margins in the first half, with strong skews towards the second half for their guidance.

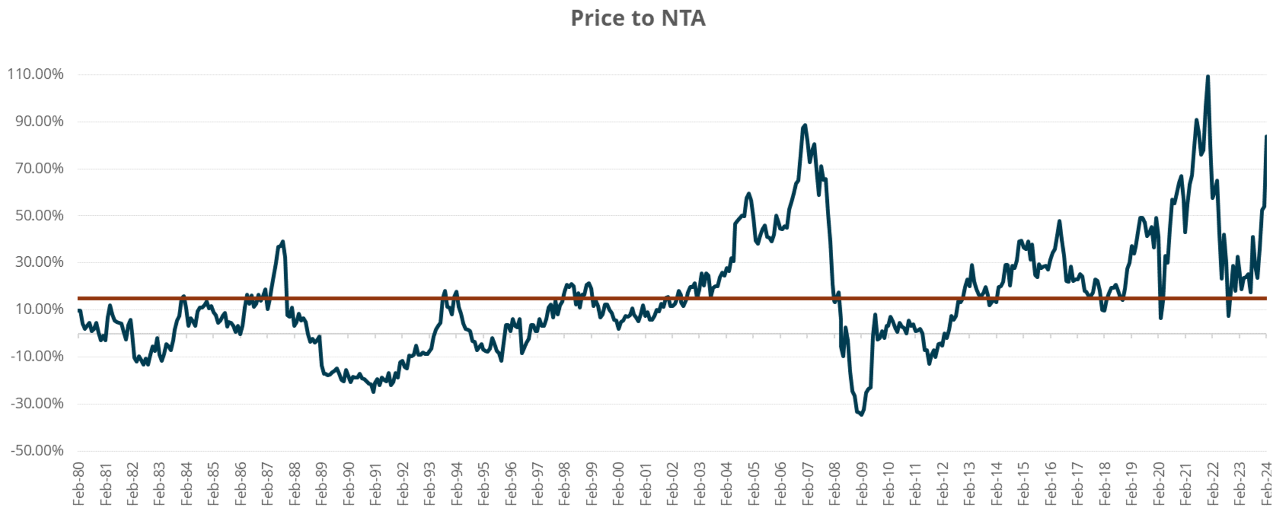
Increased enquiry was observed, particularly in areas with affordable housing, supported by stabilizing mortgage rates. The charts below from Stockland highlight the relatively low sales which, while improving, lag our longer-term expectations. While the monthly enquiry levels indicate a significant uplift compared to recent months and January last year. This bodes well for future sales activity with Victoria likely to remain the laggard in our view.

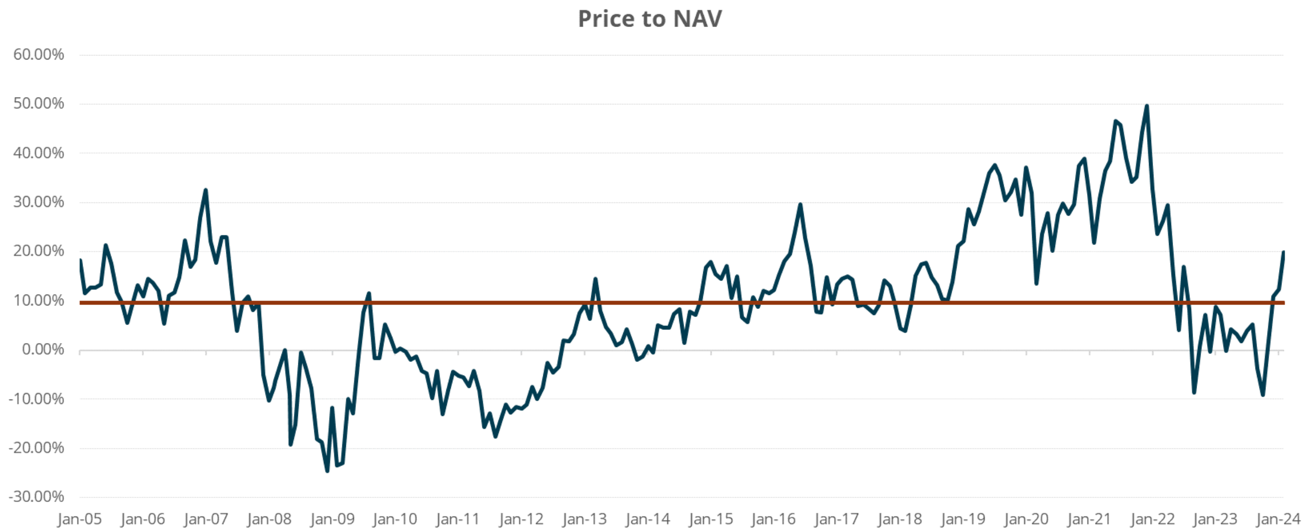


Source: Stockland

Portfolio Commentary & Strategy

The price to NTA premium of the AREIT sector finished the month circa 83.7%. 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 5.4% the price to NAV of the AREIT sector is now ~20% above long-term average. This is a consequence of the fund management/development cohort within the sector.





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. 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

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