SG HISCOCK & COMPANY

SGH Property Income Fund

30 June 2024

Performance[1]	Total Net Return	CPI+3%	ASX 300 A-REIT Accum.
1 month (%)	-2.14	0.59	0.23
3 months (%)	-8.74	1.78	-5.66
6 months (%)	-3.15	3.55	9.59
1 year (%)	5.73	7.10	23.79
3 years (% p.a.)	2.71	7.75	5.71
5 years (% p.a.)	1.79	6.48	4.64
7 years (% p.a.)	3.38	5.98	7.83
10 years (% p.a.)	5.73	5.63	9.13
Inception (% p.a.)	2.54	5.70	4.77

[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	$156M
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	$0.2853
Net Asset Value	$0.2846
Withdrawal	$0.2839
	Distribution cpu
30-Jun-23	0.6723
30-Sep-23	0.1801
31-Dec-23	0.3381
31-Mar-24	0.2299
30-Jun-24	TBA

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

SGH AREITs Investment Team:

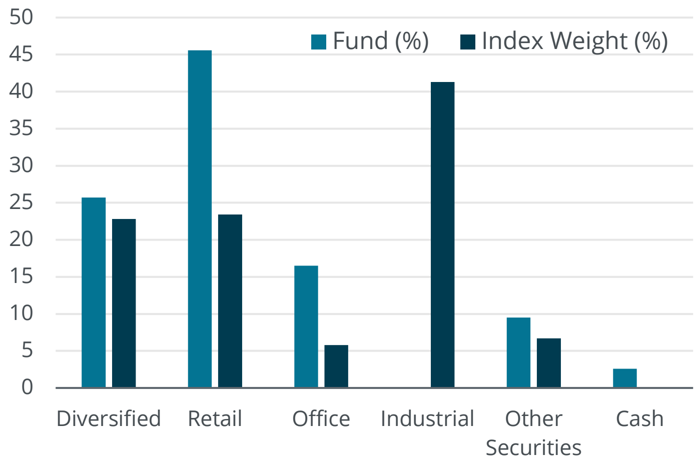
Grant Berry, Director & Portfolio Manager

Malcolm Ellis, Assistant Portfolio Manager

For more information visit the **Fund webpage** or the **News & Views section** of our website.

Asset Allocation

End of month	Fund (%)	Sector Weight (%)
Diversified	25.7	22.8
Retail	45.6	23.4
Office	16.5	5.8
Industrial	0.0	41.3
Other Securities	9.5	6.7
Cash	2.6	
Total	**100**	**100**



Metrics	Fund
PNTA	-19.2%
PNAV (Valuers Cap Rates)	-25.9%
AFFO Yield	7.1%
Distribution Yield	6.3%
Valuer Cap Rate	5.7%
Implied Cap Rate	7.2%
Implied Value Decline	-20.9%
Gearing	31.3%
Number of Holdings	22
% in top 5 holdings	50.5%
% in top 10 Holdings	72.4%
Average Mkt Cap ($m)	5,380
Cash	2.6%
12m Turnover	4.2%
12m Standard Deviation	21.3%
Tracking Error	9.4%

	End of month
Number of Stocks in the Portfolio	22
Implied Cap Rate	7.2%
Portfolio Value compared to Underlying Net Asset Value	25.9% Discount

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

Top 5 holdings represent 50% of the total Fund.

Top 5 Contributors	Top 5 Detractors
Dexus Convenience Retail REIT	Vicinity Centres
Abacus Group	Stockland
Australian Unity Office Fund	Unibail-Rodamco-Westfield
Region Group	Centuria Office REIT
Aspen Group	Waypoint REIT

Monthly absolute contributors and detractors for June 2024

Overall Performance of the AREIT Sector

Accumulation Index	Month %	Quarter %	1 year %
S&P/ASX 300 A-REIT	0.2	-5.7	23.8
Diversified Property	-3.1	-13.1	-0.1
Health Care	-4.0	-15.0	n.a.
Retail Property	-2.3	-8.7	13.8
Office Property	-1.8	-14.1	-11.3
Industrial Property	3.8	2.6	70.8
Residential Property	-1.0	-8.6	23.2
Specialised Property	2.3	-4.7	3.3

Source: UBS

Month of June

The month of June saw the S&P ASX AREIT 300 Accumulation Index deliver a modest 0.2% return. AREITs slightly underperformed the broader Australian Equity market, with the S&P ASX 300 Accumulation Index, which delivered a 0.9% return and underperformed Global REITs (hedged AUD), which returned 0.7%.

In Australia, continued resiliency in employment and inflation kept the Reserve Bank of Australia (RBA) on alert with the RBA stating in their June 18 decision to leave rates unchanged *"that the Board remains resolute in its determination to return inflation to target and will do what is necessary to achieve that outcome".*

On June 12 a significant downside surprise in the US May Consumer Price Index (CPI) drove equity and bond prices higher, with both the headline and core CPI measures reported at a less than expected 0.0% and 0.2% respectively.

Of most importance in the CPI report was the improvement in underlying measures of inflation, such as those produced by the Federal Reserve Bank of Cleveland that measure "median" and "trimmed mean" inflation. These are measures that give a read on the breadth of inflation, and both suggested an easing in broader inflation pressures in the US economy as exhibited by slowing rates of monthly growth. At the end of the month (after Australian market close) US PCE Inflation was released being flat April to May, with core up 0.1%, reflecting a material easing in inflation and in line with expectations.

While in Australia on 26 June Consumer price data overshot forecast, jumping to 4% in May from 3.6% in April and expectations of 3.8%. The Trimmed Mean CPI is 4.4% vs +2-3% target. The increase in the trimmed mean considerably raises the risk that the RBA might have to raise rates again (and several economists/strategists have moved to a rate hike in August as their base case).

Australian 10-year nominal bonds yields finished flat having rallied mid-month to sell off later in the month. Yields started the month at 4.41% to finish at 4.31%. While 10-year Inflation Linked (real) bond yields were essentially stable from 1.88% to 1.85%, the result was implied inflation of 2.4%.

June Quarter

The June quarter saw a sell-off in AREITs with the S&P ASX AREIT 300 Accumulation Index (AREIT Index) delivering a negative 5.7% return. AREITs underperformed the broader Australian Equity market, with the S&P ASX 300 Accumulation Index, which was delivered a more modest negative return of 1.2% and underperformed Global REITs (hedged AUD), which delivered a negative 2.0%.

Australian 10-year nominal bonds yields rose from 3.97% to 4.31%. While 10-year Inflation Linked (real) bond yields also rose from 1.47% to 1.85%.

Year

The AREIT sector in aggregate performed well over the year with the S&P ASX AREIT 300 Accumulation Index delivering a 23.8% return. AREITs meaningfully outperformed the broader Australian Equity market, with the S&P ASX 300 Accumulation Index, delivering 11.9% and significantly outperformed Global REITs (hedged AUD), which delivered 4.6%. The return of the AREIT sector was primarily driven by the performance of Goodman Group which delivered 74.6% return over the year (worth noting that Goodman Group represents ~40% of the Index). In what was an extreme year dominated by one stock, only four AREITs constituents outperformed the AREIT Index, with the median AREIT returning 2.5%. Our portfolio comfortably outperformed the median AREIT while not holding Goodman Group. This return is more similar to Global REITs which delivered a modest 4.6% over the year.

Further to above Goodman Group did the heavy lifting (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 Goodman Group's distribution yield is now <1%,** which is not meeting the criteria for income investing, along with index concentration consideration.

Australian 10-year nominal bonds yields softened over the year from 4.02% to 4.31%. While 10-year Inflation Linked (real) bond yields rose from 1.58% to 1.85%. This implying that the short-term inflation pressures that have been experienced should ease longer term.

We have observed a stronger relationship between implied inflation rate over the next 10 years and cash rates than trailing past 12 months inflation and cash rates. Implied long term inflation rate is relatively benign midway through the RBA band. The most recent inflation numbers have been disappointing. This has softened our conviction that rates have probably peaked albeit upward adjustments would likely be modest from here.

A real bond yield of 1.9% provides a supportive metric for long-term investing in our view and we remain constructive on our outlook.

Transactions and other updates:

Charter Hall Long WALE REIT has made progress on asset sales announcing that a total of $684.5 million of divestments have been settled on unconditionally exchanged of which $225.3 million is subject only to FIRB approval. The sales were across agri-logistics, social infrastructure, retail and industrial property on a blended yield of 6.1%. Positively this reduces look through gearing to ~36% from ~41%.

Scentre Group has established a jointly managed fund with investment bank Barrenjoey Private Capital to purchase a 50% stake in Adelaide's Westfield Tea Tree Plaza and the adjoining Tea Tree Plus for $308 million. Tea Tree Plaza has a total gross lettable area of 101,052sqm and is anchored by Myer, Big W, Kmart, Target and Harris Scarfe alongside a triple supermarket offering in Coles, Woolworths and Aldi, nine mini-majors and approximately 201 specialty stores. The transaction price was ~12% discount below Scentre Group's December 23 book value.

Dexus and CPPIB sold joint half stake in 5 Martin Place, representing a 6.1% cap rate. The half stake of 5 Martin Place that has been sold was held in the Dexus Office Trust Australia, where it is owned in equal parts by Dexus and CPPIB. The day-to-day management of the asset is handled by Dexus (source: Australian Financial Review). The sale price of $296.2 million represents a 15% discount from its latest report book value of $350 million from December 2023, and a 27% discount from its peak value of $407.4 million from December 2021.

Elsewhere Dexus sold 130 George Street, Parramatta a B grade asset with high vacancy and only one year WALE sold for $69.1 million. This contrasts to its prior valuation of $100 million representing a circa 30% discount equating to only $3,500 psm. This highlights the pricing dispersion for secondary assets.

Mirvac Group has provided a trading update ahead of the end of the financial year. Key initiatives include completing a ~$1 billion asset sales program, including the exchange and deposit receipt for 367 Collins Street, Melbourne. They have also exchanged a ~66% interest in 55 Pitt Street, Sydney, with Mitsui Fudosan Australia for an office development valued at ~$2 billion, to be developed as a joint venture. Mirvac expects residential lot settlements of approximately 2,400 lots. The Group reaffirmed its guidance for FY24 with operating earnings per stapled security expected to be between 14.0-14.3c

There are signs of improving liquidity for office transactions as prices have adjusted materially down from peak levels, with capitalisation rates in the mid 6% for prime assets being in line with our expectations **with an increasing spread for secondary assets**. This is also providing evidence for valuations.

Valuation Updates

In the lead up to 30 June several AREITs provided valuation updates, which are summarised below. We have analysed the movement in valuations and attributed the movement to capitalisation adjustment i.e. (reflective of capital markets) and the residual adjustment, which would be driven by changes in rent, capital expenditure assumptions, leasing etc, (i.e., reflective of fundamentals).

The weighted average downward adjustment of 9.4% for Office is primarily driven by the capitalisation rate expansion equating to 7.6%. The residual, negative 1.8%, is reflective of fundamental assumptions being weaker. The modest downward adjustment of 1% for Industrial portfolio was impacted negative 4.4% by capitalisation rate expansion, with a positive fundamental impact of 3%.

While Retail valuations were broadly flat, with modestly positive fundamental adjustments. Overall, fundamentals remain positive for property, except for weaker conditions across office.

Valuation changes by sub-sector

	30-Jun-24	31-Dec-23	Valuation Change % movement	Valuation attribution Change in Cap Rate	Change in Rental/Other
Office					
Dexus Property Group	6.01%	5.53%	-11.3%	-8.0%	-3.3%
Growthpoint Properties Australia	6.47%	5.98%	-6.2%	-7.6%	1.4%
Centuria Office	6.58%	6.21%	-4.4%	-5.62%	1.2%
Weighted Avg			**-9.4%**	**-7.6%**	**-1.8%**
Industrial					
Dexus Property Group	5.45%	5.18%	-1.2%	-5.0%	3.8%
Growthpoint Properties Australia	6.11%	5.86%	-0.4%	-4.1%	3.7%
Dexus Industria REIT.	5.98%	5.77%	-2.2%	-3.5%	1.3%
Weighted Avg			**-1.3%**	**-4.4%**	**3.2%**
Retail					
Region Group	6.07%	6.04%	0.5%	-0.5%	0.8%
HomeCo Daily Needs REIT	5.64%	5.58%	1.6%	-1.1%	1.6%
Dexus Convenience Retail REIT	6.40%	6.30%	-1.3%	-1.6%	0.3%
Weighted Avg			**0.9%**	**-0.9%**	**1.1%**
Healthcare					
Healthco Healthcare and Wellness REIT			2.3%	-1.9%	1.9%

Source: SG Hiscock and Company, JP Morgan

How does AREIT pricing align with most recent valuations?

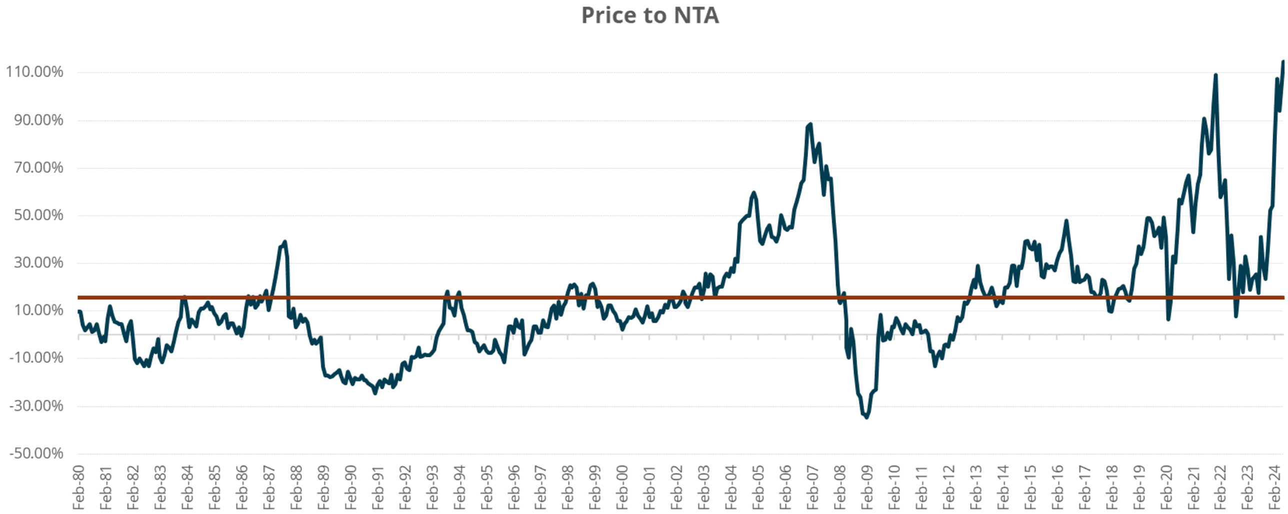
On our analysis the pure play office such as Centuria Office reflected an 8.6% implied capitalisation rate at the end of the month circa 200 bps higher than the most recent valuations.

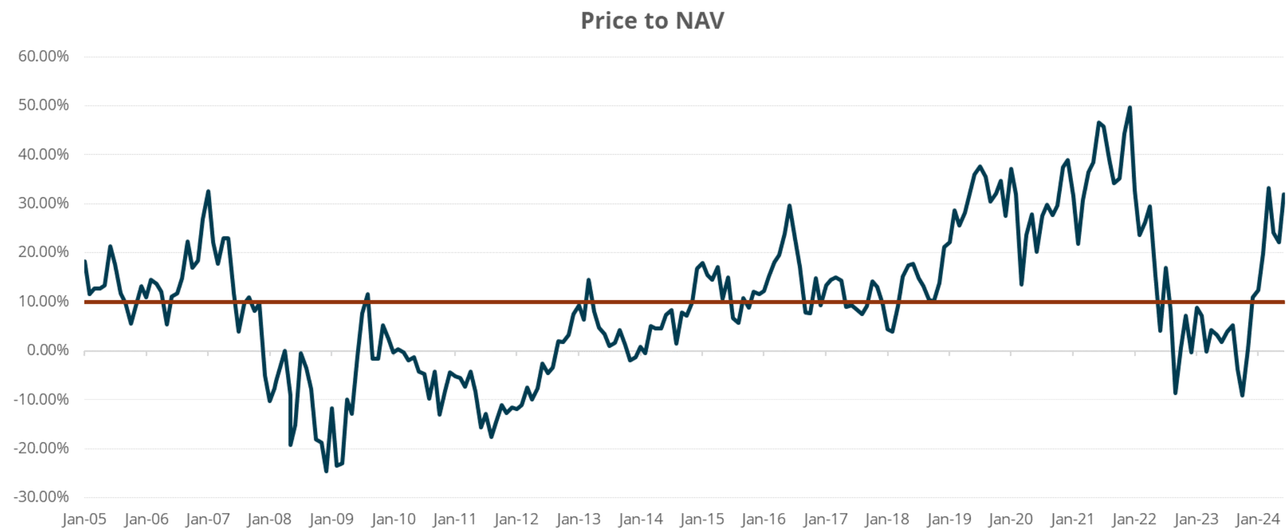
While the pure play Dexus Industrial reflected a 6.6% implied capitalisation rate at the end of the month, circa 200 bps higher than the most recent valuations.

Region Group and HomeCo Daily Needs reflected 6.7% and 6.4% implied cap rates respectively, being 60 to 70 bps higher than the most recent valuations. **Supporting better relative value in the AREIT sector and value opportunities.**

Portfolio Commentary & Strategy

The price to NTA premium of the AREIT sector finished the month circa 115%. 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 ~32% 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").

Distribution team

Anthony Cochran
Head of Distribution
acochran@sghiscock.com.au
0410 332 870

Rebecca Collins
Head of Research & Consultants
rcollins@sghiscock.com.au
0423 561 879

Matthew Potter
Senior Investment Specialist
mpotter@sghiscock.com.au
0404 884 399

Igor Kolevski
Senior Business Development Manager
ikolevski@sghiscock.com.au
0406 683 537

Serena Govender
Business Development Manager
sgovender@sghiscock.com.au
0435 509 863

Daniel Shelest
Research & Consultants Manager
dshelest@sghiscock.com.au
0432 474 254

SG Hiscock & Company

ABN 51 097 263 628
AFSL 240679

Level 23, 360 Collins Street
Melbourne 3000

Level 4, 95 Pitt Street
Australia Square Plaza
Sydney 2000

1300 555 511
www.sghiscock.com.au

SGH SG HISCOCK & COMPANY