PENGANA
CAPITAL GROUP

MONTHLY REPORT
FEBRUARY 2024

PENGANA HIGH CONVICTION PROPERTY SECURITIES FUND

DESCRIPTION

A Property Fund focussed on capital security, income yield, and sustainable growth.

The Fund believes each security has an underlying or intrinsic value and that securities become mispriced at times relative to their value and each other.

The Fund seeks to exploit such market inefficiencies by employing an active, value based investment style to capture the underlying cashflows generated from real estate assets and/or real estate businesses.

The Fund believes that responsible investing is important to generate long term sustainable returns. Incorporating ESG factors along-side financial measures provides a complete view of the risk/return characteristics of our property investments.

The Fund is benchmark unaware. All positions are high conviction and assessed on a risk-reward basis, resulting in a concentrated portfolio of 10-20 securities.

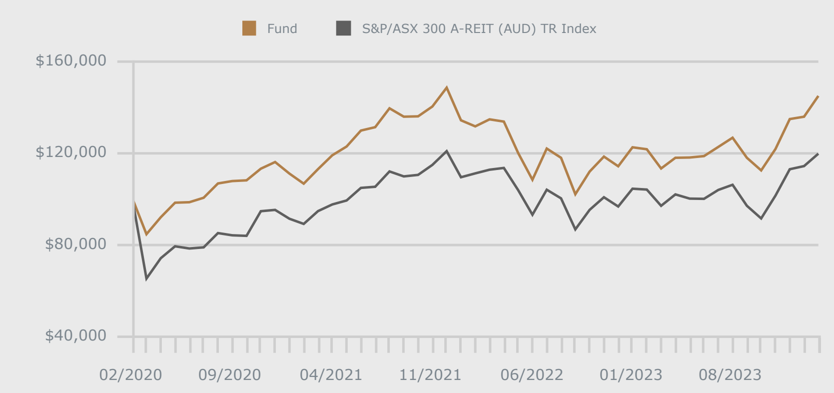
PERFORMANCE TABLE

NET PERFORMANCE FOR PERIODS ENDING 29 Feb 2024[1]

	1 MTH	1 YEAR	2 YEARS P.A.	3 YEARS P.A.	SINCE INCEPTION P.A.
High Conviction Property Securities Fund	6.7%	19.2%	4.9%	10.8%	9.6%
S&P/ASX 300 A-REIT (AUD) TR Index	4.8%	15.1%	3.8%	10.4%	4.5%

PERFORMANCE CHART

NET PERFORMANCE SINCE INCEPTION[2]



TOP HOLDINGS (ALPHABETICALLY)

Goodman Group	Real Estate
Ingenia Communities Group	Real Estate
National Storage REIT	Real Estate
Scentre Group	Real Estate
Stockland	Real Estate

SECTOR BREAKDOWN

Office REITs	1.9%
Retail REITs	18.9%
Diversified REITs	14.4%
Specialized REITs	8.8%
Industrial REITs	35%
Real Estate Management & Development	1.9%
IT Services	3.3%
Health Care REITs	3.8%
Residential REITs	5.2%
Capital Markets	3%
Cash	3.8%

STATISTICAL DATA

VOLATILITY[3]	NUMBER OF STOCKS	BETA[4]	MAXIMUM DRAW DOWN
21.66%	14	0.71	-31.4%

ADDRESSING THE ELEPHANT IN THE ROOM

COMMENTARY

This reporting season was one of the strongest A-REITs have delivered since Covid, driven by Goodman Group (GMG) delivering 28% EPS growth on 1H23 and retail REITs' operational earnings proving to be more resilient than expected. As a result, the sector was up +4.75% in February, outperforming the broader equities market by +3.8%.

In comparison, the Fund returned +6.70% achieving an outperformance of +1.95% over the benchmark.

This brings the return of the Fund over the last 12 months to +19.19% compared to the benchmark of +15.10%.

Stocks that contributed to the Fund's outperformance for the month included investments in NextDC (NXT +25.89%) and Ingenia Group (INA +9.19%).

Goodman Group has gone from strength to strength as it upgraded FY24 earnings guidance and unveiled its data centre development pipeline. The Group's secured data centre powerbank increased from 3.7GW to 4GW with a build out value of $50-$60bn, providing strong earnings visibility over the medium term. The inclusion into the FTSE EPRA NAREIT Index also contributed to a 22% return YTD.

Retail REITs, particularly large retail malls, reported strong operational metrics with average re-leasing spreads of +3.9% (strongest in a decade), close to full occupancy and strong double digit sales growth. This translated to multi-year low occupancy cost (rent/sales) of 16% versus long term average of 17%-19%, supporting further opportunity to drive rental growth.

With Covid, inflation and interest rate headwinds behind us, we expect FY24 to be the trough for earnings and for the A-REIT sector to deliver strong earnings growth going forward. We believe the recovery in the sector will be earnings led rather than based on valuations, as transaction volumes remain stagnant whilst cost of capital remains high.

So, are we close to the trough in asset values? REITs devalued their portfolios for the third consecutive period from the June 2022 peak in pricing. Office assets were written down 14% over the past 18 months with cap rates increasing by an average of 70 basis points to 5.75%. In comparison, industrial asset values were down 2.2% with cap rates at 5.27% and retail assets down 14% from their peak with cap rates at 5.39%. If we compare this to the listed market, the sector is currently trading at an average discount to NTA of 14% for passive REITs with some office REITs still trading at 30% to 40% discount to NTA. The ability to close this valuation gap depends on several factors such as gearing levels, capital structures and specific asset class concerns impacting cashflows.

As valuations, particularly for office assets, remain uncertain our focus on cashflow and balance sheet strength provides the portfolio with greater earnings visibility and sustainable growth. We remain cautious about the office sector given weak demand and increasing near term supply. Our preference is for retail REITs and alternative assets such as data centres, healthcare, childcare and manufactured housing.

FEATURES

APIR CODE	PCL8246AU
REDEMPTION PRICE	A$ 1.2078
FEES *	Management Fee: 0.70% Performance Fee: 15%
MINIMUM INITIAL INVESTMENT	A$10,000
FUM AT MONTH END	A$ 19.55m
STRATEGY INCEPTION DATE	11 March 2020
BENCHMARK	S&P/ASX 300 A-REIT Total Return Index

FUND MANAGERS

Amy Pham
Portfolio Manager

Jade Ong
Investment Specialist

1. Net performance figures are shown after all fees and expenses, and assume reinvestment of distributions. The Fund incepted on March 11th 2020. Index performance calculations include a complete month's performance for March 2020. No allowance has been made for buy/sell spreads. Please refer to the PDS for information regarding risks. Past performance is not a reliable indicator of future performance, the value of investments can go up and down.
2. Inception 11 March 2020.
3. Annualised standard deviation since inception.
4. Relative to S&P/ASX 300 A-REIT TotalReturn Index.

* For further information regarding fees please see the PDS available on our website.

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