MONTHLY REPORT
JUNE 2022

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.

STATISTICAL DATA

VOLATILITY[3]	NUMBER OF STOCKS	BETA[4]	MAXIMUM DRAW DOWN
	16		-27.1%

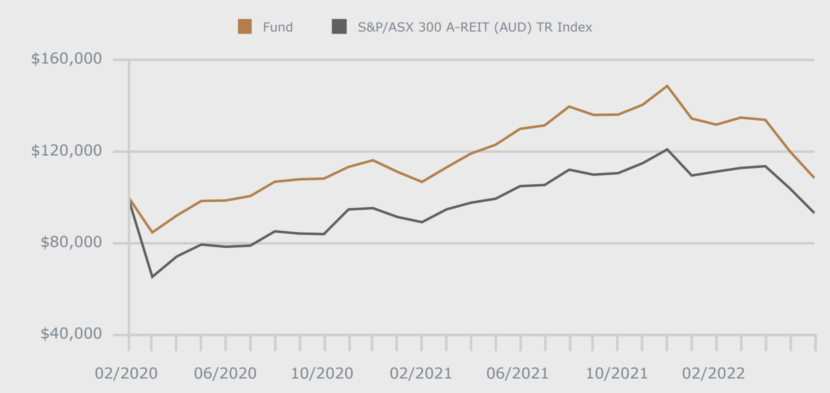
PERFORMANCE TABLE

NET PERFORMANCE FOR PERIODS ENDING 30 Jun 2022[1]

	1 MTH	1 YEAR	2 YEARS P.A.	SINCE INCEPTION P.A.
High Conviction Property Securities Fund	-9.8%	-16.6%	4.9%	3.3%
S&P/ASX 300 A-REIT (AUD) TR Index	-10.4%	-11.2%	9.0%	-3.2%

PERFORMANCE CHART

NET PERFORMANCE SINCE INCEPTION[2]



TOP HOLDINGS (ALPHABETICALLY)

Charter Hall Group	Real Estate
Goodman Group	Real Estate
GPT Group	Real Estate
Mirvac Group Property Trust	Real Estate
Shopping Centres Australasia Property Group	Real Estate

SECTOR BREAKDOWN

Retail REITs	15.1%
Diversified REITs	33.8%
Specialized REITs	7.6%
Industrial REITs	21.6%
Internet Services & Infrastructure	2.9%
Residential REITs	3.4%
Real Estate Development	7.9%
Health Care REITs	2.5%
Cash	5.1%

WHICH REITS WILL SHINE EVEN WHEN GROWTH SLOWS?

COMMENTARY

The A-REIT sector fell -10.4% in June as central banks continue its tightening policy. The RBA's 50 basis point rate hike and the continued strength in U.S. CPI (8.6%) weighed on sector sentiment. As a comparison the Fund returned -9.8%, outperforming the index by 0.6%. The Fund benefited from an overweight position in Lifestyle Communities Ltd (LIC), SCA Property Group (SCP) and Arena REIT (ARF), whilst our weighting in Charter Hall Group (CHC) detracted from performance.

For the year to date, the sector fell -23.0% compared to the Fund that fell -27.1%. The underperformance of 4.1% was mainly attributed to our overweight position in Centuria Capital (CNI -46.8%) and Charter Hall Group (CHC -46.4%). Based on our valuation, both CNI and CHC are undervalued trading at FY23 PE multiples of 11x compared to their 5 year averages of 16x and 18x respectively. As bond yield stabilises, we believe market sentiment will improve for these fund managers. Our overweight positions in SCA Property Group (SCP -4.7%) and Irongate Group (IAP +10.4%) benefited the Fund over this period.

The sharp rise in bond yields from 1.5% at the beginning of the year to 3.6% in June continued to create headwinds for long duration assets such as REITs With the sharp rise in interest rates, the market has reacted swiftly, pricing in 100 basis point cap rate expansion and as a result, REITs have underperformed the broader equities market by 14% year to date.

So where to from here? We believe REITs have been oversold and are looking cheap on an NTA/NAV and PE basis relative to the past 10 years. The sector is trading on an average 20% discount to NAV, 18% discount to NTA (ex GMG & CHC), and a sharp multiple de-rating with FY23 P/E declining from 18x at the beginning of the year to 15x currently.

Arguably, the first order impact of higher rates has now played out. The second would be a slowdown in economic activities (if policies are effective in controlling inflation). This is the environment where REITs, through their ability to pass through inflation, should shine even when growth slows. The main reason behind this includes:

1. Leases are typically linked to CPI, especially for retail REITs where lease structures are typically CPI +2%
2. Real estate has a fixed capital model unlike companies that need working capital which would erode into profits with higher inflation
3. Real estate is a higher margin business (around 50%) so cost base inflation is less of an issue versus lower margin businesses.

In addition, we favour sub-sectors that have the pricing power to pass on inflation. Currently, our preferred sectors are industrial REITs and the alternative sector such as childcare and healthcare. Industrial REITs with sound fundamentals supported by low vacancy rates (<2% for Sydney and Melbourne) and continued demand for their product from e-commerce will be better placed to capture rental increases. In comparison, we are cautious about office REITs where vacancy and incentive levels are at record highs and are unlikely to see effective rental growth for some time. The defensive nature of childcare and healthcare also provides a natural hedge from inflation as they are considered necessities and are less cyclical than your office, retail, and industrials.

Our Fund is well placed to hedge against inflation with 22% of the portfolio exposed to industrial REITs and 25% in the alternative sector.

FEATURES

APIR CODE	PCL8246AU
REDEMPTION PRICE	A$ 1.0163
FEES *	Management Fee: 0.70% Performance Fee: 15%
MINIMUM INITIAL INVESTMENT	A$10,000
FUM AT MONTH END	A$ 10.9m
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. 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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