MONTHLY REPORT
JUNE 2023

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		-31.4%

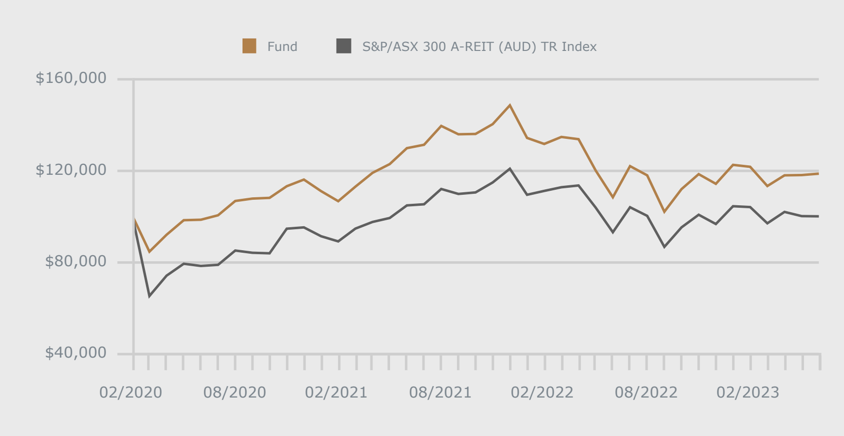
PERFORMANCE TABLE

NET PERFORMANCE FOR PERIODS ENDING 30 Jun 2023[1]

	1 MTH	1 YEAR	2 YEARS P.A.	3 YEARS P.A.	SINCE INCEPTION P.A.
High Conviction Property Securities Fund	0.5%	9.5%	-4.4%	6.4%	5.2%
S&P/ASX 300 A-REIT (AUD) TR Index	-0.1%	7.5%	-2.3%	8.5%	-0.1%

PERFORMANCE CHART

NET PERFORMANCE SINCE INCEPTION[2]



TOP HOLDINGS (ALPHABETICALLY)

Arena REIT	Real Estate
Goodman Group	Real Estate
GPT Group	Real Estate
Scentre Group	Real Estate
Stockland	Real Estate

SECTOR BREAKDOWN

Office REITs	**2.4%**
Retail REITs	**8.4%**
Diversified REITs	**30.7%**
Specialized REITs	**5.5%**
Industrial REITs	**26.7%**
Real Estate Management & Development	**12.5%**
IT Services	**4.3%**
Health Care REITs	**4.3%**
Cash	**5.2%**

INFLATION PEAKED BUT VOLATILITY REMAINS

COMMENTARY

The Fund delivered another month of outperformance in June, closing with a +0.52% return compared to the S&P/ ASX 300 A-REIT Index of -0.09%. For the 2023 financial year, the Fund delivered strong performance of +9.54% compared to the Index return of +7.49%, generating outperformance of +2.05%.

Pleasingly, many of the top contributors to the Fund's outperformance over the 2023 financial year were our non-index holdings including **Peet Ltd** (PPC +40.18%), **Lifestyle Communities** (LIC +16.21%), **Qualitas Ltd** (QAL +19.96%) and **NextDC Ltd** (NXT +19.34%). The key characteristics of these holdings are that they are underpinned by secular trends and less sensitive to the rise in inflation and interest rates.

The Fund delivered another month of outperformance in June, closing with a +0.52% return compared to the S&P/ ASX 300 A-REIT Index of -0.09%. For the 2023 financial year, the Fund delivered a strong performance of +9.54% compared to the Index return of +7.49%, generating an outperformance of +2.05%.

Pleasingly, many of the top contributors to the Fund's outperformance over the 2023 financial year were our non-index holdings including **Peet Ltd** (PPC +40.18%), **Lifestyle Communities** (LIC +16.21%), **Qualitas Ltd** (QAL +19.96%) and **NextDC Ltd** (NXT +19.34%). The key characteristics of these holdings are that they are underpinned by secular trends and less sensitive to the rise in inflation and interest rates.

The last financial year was all about the rising cost of capital in response to stubbornly high inflation rates. This led to 3 themes that dominated the market:

1. Balance sheets are under scrutiny as the cost of refinancing rises.
2. Wide gaps in valuations between direct property and listed markets.
3. Effects of the pandemic still lingering in places such as the office market with the WFH thematic, and developers still grappling with labour shortages and high construction costs due to inflation.

Looking ahead, inflation seems to have peaked but it remains significantly higher than the RBA's target range (2-3%). Over the next six months, we continue to see the sector being driven by a macro environment of high inflation, high interest rates, and low growth. With this in mind, here are the key questions we want to address:

1. **Can the AREIT sector grow earnings into FY24 given the impact of higher rates?**

The inflation hedge characteristics of REITs with rental growth often linked to CPI have generated an estimate of 5% in headline earnings growth. However, with the significant rise in the cost of debt (from ~2.5% to now ~6%), earnings growth at an operating level has halved. The ability to deploy capital effectively is key to achieving positive earnings growth. REITs that are best placed to achieve this are those with strong balance sheets to fund future acquisitions and developments, and those operating in sub-sectors that have favourable fundamentals and operational matrices such as logistics.

2. **Where will valuations end up and can the gap be closed?**

Based on REITs that have reported June 2023 revaluations so far, the average expansion in cap rates is 25bps since December 2022 and 33bps since June 2022, equating to a drop in asset values of 6%. Logistics assets proved most resilient with strong income growth offsetting cap rate expansions, whilst office assets experienced the greatest value declines largely due to limited income growth. Given that cost of capital has increased significantly and the economic outlook has weakened, we believe there is further downside risk to valuations, particularly in sub-sectors such as office where there is little earnings growth to offset the rise in the cost of debt. June saw the re-emergence of transaction activity with REITs being net sellers to strengthen their balance sheets. With more transactional evidence expected to come through over the next few months, we will gain greater clarity on where valuations will end up. As it stands, the listed market has arguably already factored in greater devaluations as the majority of REITs are trading at an average of 20-30% discount to their book value. We remain cautious and adopt a conservative forward view on cap rates, factoring in +30bps expansion for retail, +50bps expansion for industrial and +70bps expansion for office.

The pause in the rate hike in July indicates to the market that inflation has peaked. Looking forward we could see stabilisation in rates which should be supportive for the REIT sector.

FEATURES

APIR CODE	PCL8246AU
REDEMPTION PRICE	A$ 1.022
FEES *	Management Fee: 0.70% Performance Fee: 15%
MINIMUM INITIAL INVESTMENT	A$10,000
FUM AT MONTH END	A$ 16.27m
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.

PENGANA HIGH CONVICTION PROPERTY SECURITIES FUND

PENGANA CAPITAL LIMITED

ABN 30 103 800 568

AFSL 226566

CLIENT SERVICE

T: +61 2 8524 9900

F: +61 2 8524 9901

E: clientservice@pengana.com

PENGANA CAPITAL GROUP

PENGANA.COM