PENGANA CAPITAL

MONTHLY REPORT
NOVEMBER 2021

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 16	BETA (USING DAILY RETURNS)[4]	MAXIMUM DRAW DOWN -15.8%

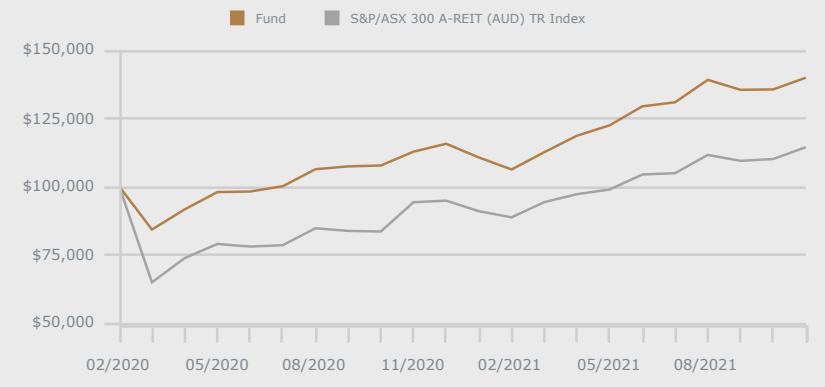
PERFORMANCE TABLE

NET PERFORMANCE FOR PERIODS ENDING 30 Nov 2021[1]

	1 MTH	1 YEAR	SINCE INCEPTION P.A.
High Conviction Property Securities Fund	3.2%	24.1%	21.1%
S&P/ASX 300 A-REIT (AUD) TR Index	4.0%	21.4%	8.0%

PERFORMANCE CHART

NET PERFORMANCE SINCE INCEPTION[2]



TOP HOLDINGS (ALPHABETICALLY)

Charter Hall Group	Real Estate
Goodman Group	Real Estate
GPT Group	Real Estate
Ingenia Communities Group	Real Estate
Mirvac Group Property Trust	Real Estate

SECTOR BREAKDOWN

Retail REITs	6.7%
Diversified REITs	39%
Specialized REITs	3.8%
Industrial REITs	25.1%
Internet Services & Infrastructure	5.1%
Residential REITs	6.7%
Real Estate Development	11.1%
Cash	2.5%

IT'S ALL ABOUT REAL ESTATE FUND MANAGERS

COMMENTARY

The REIT sector gained 4.0% in November, significantly outperforming the broader market which returned -0.5%. This was driven by a 40 basis point compression in the long bond yield to 1.7%, caused by global economic uncertainty and supply chain disruptions fueled by the new Omicron variant. By comparison, the Fund returned 3.2% driven by our overweight position in Charter Hall Group and underweight position to large discretionary mall REITs.

We have included a recording of our recent investor webinar below.

This month our focus is on our two largest positions, Goodman Group (GMG) and Charter Hall Group (CHC). Both had substantial FY22 earnings upgrades and were the top performers for the year at 34% and 44% respectively, compared to the index at 21%.

So where to from here?

We believe there are two major tailwinds for real estate fund managers such as GMG, CHC and Centuria Group (CNI):

1. Lower-for-longer interest rate environment supports the demand for real estate assets
2. An increase in demand for alternative assets

Both Goodman and Charter Hall have strong and diverse platforms across listed, unlisted, and wholesale funds that they can tap into for capital. For a fund manager, AUM growth is generated predominately from development pipelines and acquisitions. From this asset base they are able to generate annuity earnings through management fees, acquisition fees, and performance fees.

GMG has the largest development program, with development work-in-progress (WIP) of over $12.7bn, generating substantial margins with yields on cost at 6.7% versus cap rates at 4%. This development book, combined with strong revaluations and acquisitions has led GMG to grow its AUM from $62b currently to $70b by June 2022. Their ability to increase their WIP from $10b to $12.7b since FY21 indicates the level of demand for their products and provides confidence in their earnings growth going forward.

CHC has achieved an average FUM growth of 25% since 2015, with AUM currently sitting at $58bn.The main driver of FUM growth for CHC has been the ongoing sourcing and establishment of new wholesale and direct funds and partnerships across all real estate asset classes. Further cap rate compression across the platform, particularly in its logistics, long WALE and convenience retail portfolios provides additional FUM growth. From an earnings perspective, we anticipate upside from performance fees generated from their industrial and long WALE funds post June '21, which are expected to exceed their performance fee IRR hurdles.

Both GMG and CHC have benefited from having exposure to alternative real estate sectors such as logistics, childcare, and long WALE assets. Increasing e-commerce penetration will continue to support long-term demand for modern logistics facilities. We expect this tailwind to continue as land scarcity and planning permit challenges in many infill markets should drive further rent growth and lower vacancies.

Alternative assets have proved to provide resilient earnings, particularly during the pandemic, as most of the assets are considered essential services. This characteristic along with the small representation in the A-REIT market (currently at 6% of the index) leads to more capital flows, particularly as both the retail sector and office sector are out of favour with structural challenges from online retailing and the working from home thematics.

As a high conviction manager, we are benchmark unaware and hold a concentrated portfolio. We continue to support REITs that have positive free cashflows, strong balance sheets, and a management team that can add value through development or capital recycling.

FEATURES

APIR CODE	PCL8246AU
REDEMPTION PRICE	A$ 1.3526
FEES *	Management Fee: 0.70% Performance Fee: 15%
MINIMUM INITIAL INVESTMENT	A$10,000
FUM AT MONTH END	A$ 11.89m
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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