PENGANA CAPITAL

MONTHLY REPORT
JANUARY 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
	17		-15.8%

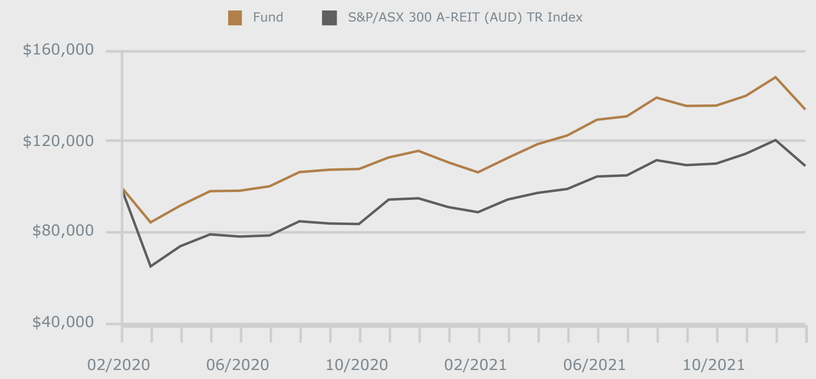
PERFORMANCE TABLE

NET PERFORMANCE FOR PERIODS ENDING 31 Jan 2022[1]

	1 MTH	1 YEAR	SINCE INCEPTION P.A.
High Conviction Property Securities Fund	-9.6%	21.0%	16.4%
S&P/ASX 300 A-REIT (AUD) TR Index	-9.4%	19.9%	4.6%

PERFORMANCE CHART

NET PERFORMANCE SINCE INCEPTION[2]



TOP HOLDINGS (ALPHABETICALLY)

Centuria Capital	Real Estate
Charter Hall Group	Real Estate
Goodman Group	Real Estate
Ingenia Communities Group	Real Estate
Mirvac Group Property Trust	Real Estate

SECTOR BREAKDOWN

Retail REITs	8.3%
Diversified REITs	36.2%
Specialized REITs	3.9%
Industrial REITs	23.9%
Internet Services & Infrastructure	4.6%
Residential REITs	6.1%
Real Estate Development	10.8%
Health Care REITs	3.3%
Cash	2.9%

THE AREITS BEST PLACED TO MAINTAIN PRICING POWER AND GROW EARNINGS

COMMENTARY

The AREIT sector had a shaky start to the year, down -9.5% for the month as inflation concerns led to a 30 basis point increase in the 10-year bond yield to 1.89%. The Fund performed in line with the market, with a return of -9.6%. A key contributor to performance for the month was our holding in Irongate Group (IAP), which received a joint takeover bid from Charter Hall Group (CHC) and a Dutch pension fund (PGGM) for $1.90 cash plus the March 2022 distribution of 4.67c.

In an inflationary environment with rising interest rates, our focus has turned to which stocks and sub-sectors are best placed to maintain their pricing power and grow earnings.

Fund managers such as **Goodman Group** (GMG), **Charter Hall Group** (CHC), and **Centuria Group** (CNI) remain our top picks for a number of reasons:

1) After a rebasing in share prices, where most fund managers have fallen as much as 20%, we see this as buying opportunity. CHC is now trading on a ~16x earnings multiple, below the average for the AREIT sector. We believe CHC and GMG are candidates to upgrade FY22 guidance at the upcoming results. We forecast CHC's earnings growth to be 15% through to FY24, underpinned by AUM growth and margin expansion as incremental FUM is being added at a very high margin.

2) Tailwinds continue for the logistics sector driven by global e-commerce demand. GMG, with a development book of $12.7bn combined with very high and growing margins (~60% on developments given the 250bps spread between yield-on-cost and market cap rates) should drive significant growth in development earnings as the projects are delivered. This flows through to AUM growth and performance fees providing us with confidence and visibility of future earnings growth.

3) The structural shift into alternative assets will benefit CNI. Having grown AUM to over $20bn through the acquisitions of Heathley Healthcare (2019), Augusta Capital (2020), and Primewest (2021), CNI now has one of the highest exposures to alternative sectors. In Australia, alternative assets only represent 6% of the AREIT index compared to more established markets such as the US and UK where they represent more than 50%. We believe as the structural headwinds remain for discretionary retail from online retailing and the work from home (WFH) thematics for office, alternative assets – being driven by secular trends, and hence less cyclical – will provide both earnings certainty and capital growth for investors.

4) On a macro view, with the anticipated economic slowdown underway and the risk of moving towards a downturn, we expect this will result in a flight to defensive asset classes such as REITs. This is likely to be supportive of real asset values and deployment of capital into the sector, which will aid fund managers. The risk is another shift higher in yields, although the current spread between asset yields (average at 4.5%-5.5%) and the cost of debt (average of 2%) is generally attractive and supports asset valuations and further M&A in the sector.

Based on valuation, the sector is trading on a forecast FY23 distribution yield of 4%, providing a 200 basis points gap to 10-year bonds, and an attractive three-year EPS growth of 6%.

FEATURES

APIR CODE	PCL8246AU
REDEMPTION PRICE	A$ 1.2773
FEES *	Management Fee: 0.70% Performance Fee: 15%
MINIMUM INITIAL INVESTMENT	A$10,000
FUM AT MONTH END	A$ 11.67m
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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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

PENGANA.COM