PENGANA CAPITAL GROUP

MONTHLY REPORT
JULY 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		-27.1%

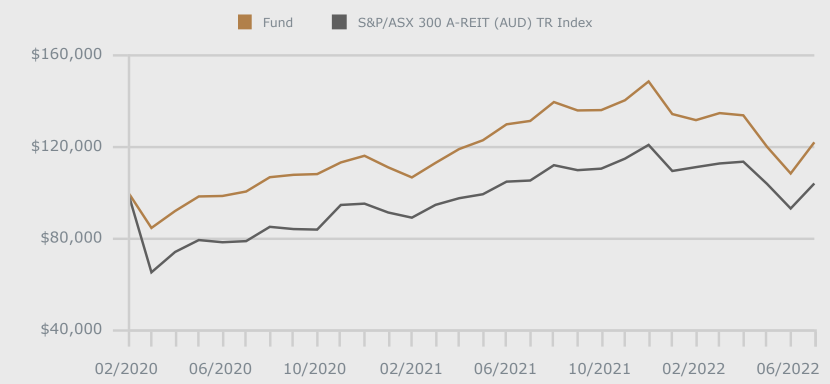
PERFORMANCE TABLE

NET PERFORMANCE FOR PERIODS ENDING 31 Jul 2022[1]

	1 MTH	1 YEAR	2 YEARS P.A.	SINCE INCEPTION P.A.
High Conviction Property Securities Fund	12.6%	-7.1%	10.2%	8.4%
S&P/ASX 300 A-REIT (AUD) TR Index	11.8%	-1.2%	14.9%	1.5%

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	14.1%
Diversified REITs	35.8%
Specialized REITs	7.8%
Industrial REITs	23.3%
Internet Services & Infrastructure	2.6%
Real Estate Development	7.5%
Health Care REITs	2.5%
Cash	6.4%

WHAT TO EXPECT FROM AREITS THIS REPORTING SEASON

COMMENTARY

The A-REIT sector rebounded strongly in July, up 11.8%, and outperformed the broader equities market by 5.8%. In comparison, the Fund outperformed the benchmark by 0.8%., returning 12.6% to investors. Key contributors to performance included our overweight positions in **Lifestyle Communities** (LIC +24.1%), **HealthCo Healthcare and Wellness REIT** (HCW +25.5%), and **Charter Hall Group** (CHC +17.6%).

We expect a solid earnings season for the AREIT sector, driven by a strong recovery in retail which has been impacted by COVID; high earnings growth from the fund managers driven by strong AUM growth and performance fees; and record high settlements for residential developers benefiting from government stimulus such as the HomeBuilder grants. Combining these factors, we expect the REIT sector to generate average earnings growth of 12% for FY22.

Moving forward, with the rise in interest rates, the market will focus on 1) cost of debt; 2) asset value movements and 3) development returns.

Since the RBA embarked on a tightening cycle in May 2022, cash rates have jumped from 0.10% at the start of the year to 1.35% at the end of July. This has meant that floating debt costs could be as high as 3.70% by 2023, which could have an impact on the earnings of REITs with higher gearing levels and low hedging profiles. As a whole, the sector's capital position remains strong with an average gearing level of 27% (below the long-term average of 29% and well below the pre-GFC level of 45%). However, with the uncertainty of where interest rates will land over the next few years, we have adopted a level of conservatism and prefer REITs that have a strong balance sheet with low gearing levels and are well hedged over the medium term.

So where to from here for valuations? Based on the REITs that have reported on June 2022 property valuations, asset values have lifted on average by 3.5% whilst cap rates have remained flat. Looking forward, we expect the office sector to have the largest downside risk to valuation with cap rates to expand by 50 basis points. Cap rates in the retail sector can be expected to expand by 30 basis points whilst the industrial sector is likely to remain flat. The alternative sector and convenience shopping centres with their defensive cash flows will continue to benefit from cap rate compression.

In the past few years, REITs have significantly expanded their development pipelines to generate superior earnings growth. However, rising construction costs coupled with potentially expanding cap rates, are making project feasibilities more difficult. Our preference is for development projects in the industrial sector with favourable fundamentals in-tact (low vacancy rates of <1% for Sydney and high positive rental reversions of 10%-15%) or in the alternative sector such as childcare or healthcare where demand remains high. The significant increase in the cost of debt finance will also prohibit many players from commencing projects. This will favour groups with in-house development capability and strong access to third-party capital such as **Charter Hall Group** (CHC), **Centuria Capital Group** (CNI) and **Goodman Group** (GMG).

On a macro basis, we see the moderation of bond yields from the peak of 4.2% to 3.27% currently, as a positive for A-REIT sector performance, which has typically been negatively correlated to long-term bond yields. Market commentators are now expecting the RBA to cut rates as early as 2023, suggesting recessionary risks have now increased. We believe REITs with relatively stable earnings and attractive valuations represent a favourable addition to a portfolio and should lead to relatively strong performance.

FEATURES

APIR CODE	PCL8246AU
REDEMPTION PRICE	A$ 1.0778
FEES *	Management Fee: 0.70% Performance Fee: 15%
MINIMUM INITIAL INVESTMENT	A$10,000
FUM AT MONTH END	A$ 13.85m
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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