PENGANA
CAPITAL GROUP

MONTHLY REPORT
JULY 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
	15		-31.4%

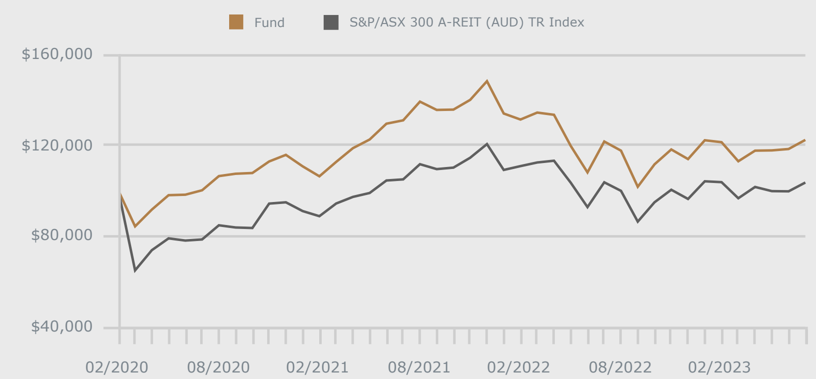
PERFORMANCE TABLE

NET PERFORMANCE FOR PERIODS ENDING 31 Jul 2023[1]

	1 MTH	1 YEAR	2 YEARS P.A.	3 YEARS P.A.	SINCE INCEPTION P.A.
High Conviction Property Securities Fund	3.4%	0.6%	-3.4%	6.9%	6.1%
S&P/ASX 300 A-REIT (AUD) TR Index	3.9%	-0.1%	-0.7%	9.7%	1.0%

PERFORMANCE CHART

NET PERFORMANCE SINCE INCEPTION[2]



TOP HOLDINGS (ALPHABETICALLY)

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

SECTOR BREAKDOWN

Office REITs	2.5%
Retail REITs	8.4%
Diversified REITs	29.8%
Specialized REITs	5.5%
Industrial REITs	28.7%
Real Estate Management & Development	11.4%
IT Services	4.3%
Health Care REITs	4.5%
Cash	5%

WHAT DOES A PEAK IN INTEREST RATES MEAN FOR THE RESIDENTIAL SECTOR?

COMMENTARY

The A-REIT sector delivered a solid start to the new financial year, up +3.8% in July as economic data released during the month showed the effectiveness of the interest rate tightening cycle with 1) a softer inflation print (6.0% vs. consensus 6.1%); and 2) weaker June retail sales.

In comparison, the Fund returned +3.38% which was a solid result notwithstanding our bias toward non-index stocks. Key contributors to returns over the month include **Lifestyle Communities** (LIC +10.86%), **HealthCo Wellness** REIT (HCW +8.37%), and **RAM Essential Services** (REP +7.97%). The top detractors of performance were **Qualitas** (QAL -5.20%) and **Arena REIT** (ARF +1.06%).

The RBA left cash rates unchanged at 4.1% for the second consecutive month as inflation seems to have peaked at 6.0%. With this in mind, we unpack below what this means for the residential sector, which has been most impacted by the rate changes.

Looking at the demand/supply dynamics, COVID saw government stimulus and ultra-low interest rates drive extreme residential demand, but production was impacted by lockdowns and supply chain shortages in both materials and labour. Three years on from COVID and we are still in an environment where housing shortages are driving low rental vacancies to below 1% in Sydney and Melbourne. Added to this complexity are the ongoing affordability challenges. As mortgage rates have increased from around 2% to 6%, we have started to see mortgage stress in certain segments of the market, with mortgage repayments approaching a record >40% of income compared to an average of 20-30%. On the supply side, challenges remain in construction cycles – whilst wet weather impacts and freight costs have eased, input costs and the lack of skilled labour are likely to persist with competition from various infrastructure projects such as the Olympics in Brisbane and the road and rail networks in Sydney.

So, what does this mean for a recovery in the residential sector? We believe the recovery is being pushed out even though demand is greater than supply mainly due to our view that inflation will be more persistent. This suggests that rates will be "higher for longer", which will restrict buyer's ability to obtain finance. For residential developers, we believe sales volume will come off from the record levels of 2021, but prices and margins will be maintained. Longer term drivers of lower rates combined with strong population growth and the return of immigration (estimated to be over 700,000 immigrants over the next two years) will provide further support for the sector.

As a result, our preference is for more affordable products such as those owned and developed by **Stockland Group** (SGP) and **Peet Group** (PPC), and land-leased products in retirement living such as **Lifestyle Communities** (LIC).

FEATURES

APIR CODE	PCL8246AU
REDEMPTION PRICE	A$ 1.0393
FEES *	Management Fee: 0.70% Performance Fee: 15%
MINIMUM INITIAL INVESTMENT	A$10,000
FUM AT MONTH END	A$ 16.68m
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.COM