MONTHLY REPORT
AUGUST 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
	18		-27.1%

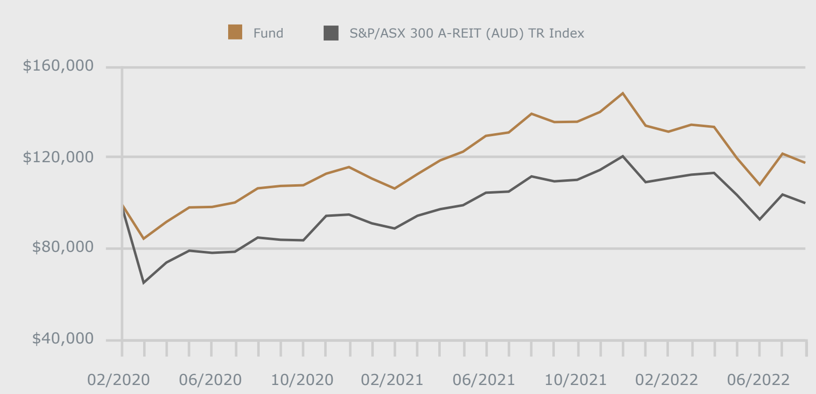
PERFORMANCE TABLE

NET PERFORMANCE FOR PERIODS ENDING 31 Aug 2022[1]

	1 MTH	1 YEAR	2 YEARS P.A.	SINCE INCEPTION P.A.
High Conviction Property Securities Fund	-3.3%	-15.5%	5.1%	6.7%
S&P/ASX 300 A-REIT (AUD) TR Index	-3.6%	-10.5%	8.6%	-0.1%

PERFORMANCE CHART

NET PERFORMANCE SINCE INCEPTION[2]



TOP HOLDINGS (ALPHABETICALLY)

Arena REIT	Real Estate
Charter Hall Group	Real Estate
Goodman Group	Real Estate
GPT Group	Real Estate
Shopping Centres Australasia Property Group	Real Estate

SECTOR BREAKDOWN

Retail REITs	13.3%
Diversified REITs	35.2%
Specialized REITs	7.9%
Industrial REITs	21.9%
Internet Services & Infrastructure	3.4%
Diversified Real Estate Activities	3.3%
Real Estate Development	8.8%
Health Care REITs	2.3%
Cash	3.9%

HOW REITS DE-RISK FUTURE EARNINGS

COMMENTARY

The A-REIT sector returned -3.6% in August, giving back some of its performance from the previous month as bond yields rose 54 basis points over the month. In comparison, the Fund returned -3.3%, outperforming the benchmark by 0.3%. Key contributors to performance included our holdings in **Charter Hall Group (CHC +6.0%)**, **Peet Limited (PPC +8.1%)**, and **Lifestyle Communities (LIC +3.1%)**. CHC was one of the best performers for the month after delivering an impressive FY22 result with earnings up 90% driven by strong performance fees. Despite rising rates and investor caution, CHC has a positive outlook, reflecting: 1) transaction activity likely to exceed cautious market expectations, and 2) its ability to leverage off its strong platform for future growth.

As expected, the key focus of the FY22 reporting season was the impact of rising interest rates on earnings and valuations. REITs caught out by the rate rise were the ones with high gearing levels and low hedging profiles. For these REITs, the higher cost of debt has seen a drag to earnings revisions of around 2.5% for FY23/FY24. With the majority of REITs increasing hedging and extending hedging maturities, the vast majority of interest rate headwinds facing the sector are now known.

So where to from here? We believe REITs will be rewarded for 1) strong balance sheets through recycling of capital, and 2) access to capital through platforms.

Having a strong balance sheet is one of our key investment criteria. With the cost of debt increasing from an average of 2.5% at the beginning of the year to close to 5% now, the ability to recycle capital is key to achieving sustainable earnings growth.

We prefer REITs that have a capital light business model such as **LIC**. LIC is a leading Victorian manufactured housing estates (MHE) operator with approximately 2,800 operating units and a development pipeline of 2,300 over the next 3 years. It is one of the few REITs that rarely needs to raise equity due to its business model. Once a project is completed, capital is recycled into future development pipelines thereby reducing cyclical risks, such as rising debt or equity costs.

Other groups such as **Dexus (DXS)**, **Stockland (SGP)**, and **Mirvac (MGR)** have been selling non-core/lower quality assets to reposition the portfolio and recycle capital into developments. Both DXS and MGR have plans to divest $1bn and $1.3bn of assets respectively to deploy into their development pipeline. While SGP is looking to reduce its retail exposure to fund their industrial developments. We believe this strategy is riskier as it relies on the demand of the asset at that point in time.

Another way to obtain capital to fund acquisitions and developments is to have access to third party capital. Fund managers such as **Charter Hall (CHC)**, **Centuria Group (CNI)**, and **Goodman Group (GMG)** have established funds management businesses with demonstrated success in accessing third party capital through diverse sources including unlisted wholesale, unlisted retail, unlisted institutional, and listed REITs. These long term capital partners are able to look through short-term volatility and invest against longer term targets. This provides these groups with greater opportunities to gain market share in the current environment with counterparty risk and the ability to unlock more complex transactions. Currently, we view CHC as best positioned with $7.9 billion of investment capacity on the platform and approximately $600 million of cash on balance sheet, providing capacity for FUM growth even if there is a short-term slowdown in equity flows.

Later to the party include DXS (growing their funds management with the acquisition of Collimate and APN), while MGR and SGP are actively seeking capital partners for their development pipeline.

In a rising interest rate environment, the ability to secure capital and share funding costs is key. We continue to support fund managers such as CHC and CNI with strong capital partners and LIC with a strong product driven by secular trends and good capital structures.

FEATURES

APIR CODE	PCL8246AU
REDEMPTION PRICE	A$ 1.0421
FEES *	Management Fee: 0.70% Performance Fee: 15%
MINIMUM INITIAL INVESTMENT	A$10,000
FUM AT MONTH END	A$ 15.58m
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.

PENGANA HIGH CONVICTION PROPERTY SECURITIES FUND

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