PENGANA
CAPITAL GROUP

MONTHLY REPORT
AUGUST 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
	16		-31.4%

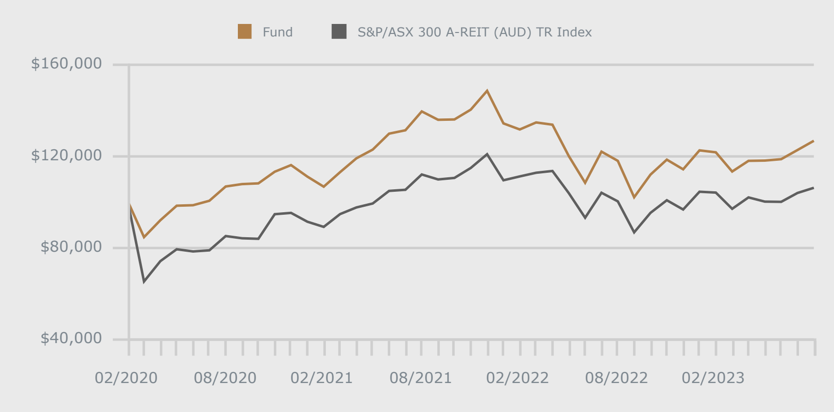
PERFORMANCE TABLE

NET PERFORMANCE FOR PERIODS ENDING 31 Aug 2023[1]

	1 MTH	1 YEAR	2 YEARS P.A.	3 YEARS P.A.	SINCE INCEPTION P.A.
High Conviction Property Securities Fund	3.3%	7.5%	-4.7%	5.9%	6.9%
S&P/ASX 300 A-REIT (AUD) TR Index	2.2%	5.9%	-2.6%	7.7%	1.6%

PERFORMANCE CHART

NET PERFORMANCE SINCE INCEPTION[2]



TOP HOLDINGS (ALPHABETICALLY)

Arena REIT	Real Estate
Goodman Group	Real Estate
NEXTDC Ltd	Information Technology
Scentre Group	Real Estate
Stockland	Real Estate

SECTOR BREAKDOWN

Retail REITs	4.8%
Diversified REITs	33.1%
Specialized REITs	5.1%
Industrial REITs	32.3%
Real Estate Management & Development	10.7%
IT Services	5.1%
Health Care REITs	4.5%
Cash	4.4%

REPORTING SEASON SCORECARD

COMMENTARY

The AREIT sector delivered strong performance of +2.2% in August assisted by continued moderation in the cash rate and Goodman Group's (GMG) stellar performance of +13.7% during the month. In comparison, the Fund also delivered strong performance of +3.3%, outperforming the benchmark by +1.1%. This was attributable to our exposure to GMG and NextDC (NXT +6.2%) and a clear underweight to the office sector (-7.8%).

The REITs reporting season disappointed on the earnings front, but underlying asset level performance was better than expected. Debt cost headwinds plagued a majority of the REITs with a 25% increase in interest expense, which largely eroded underlying rental growth. The key highlight was strength in the retail sector. Large retail landlords reported the best operating metrics in a decade helped by nearly full occupancies of 99% and strong retail sales growth of 14% with favourable CPI linked rental structures. While we expect sales momentum to continue moderating as the economy slows, we remain bullish on large mall REITs as specialty occupancy costs of 14% (rents/ sales) are at all-time lows suggesting retailers have the capacity to pay higher rents and increasingly, we are seeing online retailers adopting an omni-channel strategy (choosing the best retail malls to showcase their product in addition to their online strategy).

This reporting season has seen the widest divergence in performance, reflecting varying sub-sector outlooks with the market punishing stocks with higher financing costs. The top performer for the month was Goodman Group (GMG +13.7%) after management reported on its strong balance sheet and unveiled a pipeline of data centre sites with secured and potential power allocation of >3 GW. In contrast, the worst performer Charter Hall Long WALE (CLW -13.9%) provided FY24 guidance that was 8% below market consensus due to higher than expected financing costs eroding top line NOI growth.

We see an improvement in the outlook for AREITs as cash rates stabilise and the headwind of higher interest rates is increasingly in the rear-view mirror. Quality assets continue to outperform including last mile logistics, prime grade office, resilient retail, and alternative assets. With many REITs looking to recycle capital to strengthen their balance sheets or to fund development pipelines, it pays to have assets that capital is still chasing. As we move through the new financial year, our preference is for REITs with a clear growth strategy (for example GMG moving into data centres to leverage the growth of AI, and Stockland Group addressing the affordability housing crisis) rather than hoping for interest rate cuts.

FEATURES

APIR CODE	PCL8246AU
REDEMPTION PRICE	A$ 1.0735
FEES *	Management Fee: 0.70% Performance Fee: 15%
MINIMUM INITIAL INVESTMENT	A$10,000
FUM AT MONTH END	A$ 17.46m
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.

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