PENGANA CAPITAL GROUP

MONTHLY REPORT
OCTOBER 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%

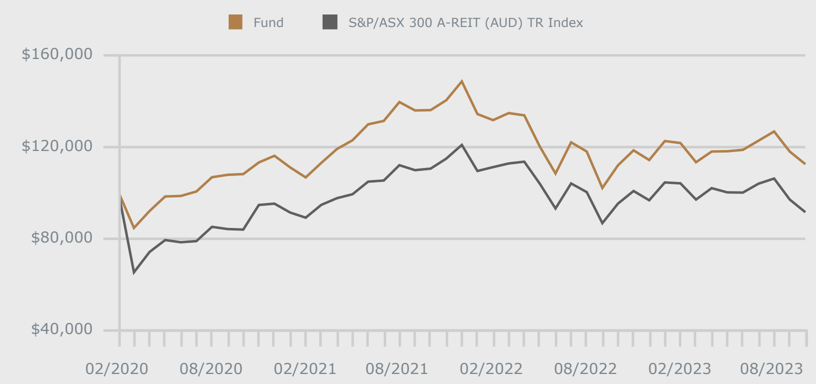
PERFORMANCE TABLE

NET PERFORMANCE FOR PERIODS ENDING 31 Oct 2023[1]

	1 MTH	1 YEAR	2 YEARS P.A.	3 YEARS P.A.	SINCE INCEPTION P.A.
High Conviction Property Securities Fund	-4.7%	0.5%	-9.1%	1.3%	3.1%
S&P/ASX 300 A-REIT (AUD) TR Index	-5.7%	-3.9%	-9.0%	2.9%	-2.5%

PERFORMANCE CHART

NET PERFORMANCE SINCE INCEPTION[2]



TOP HOLDINGS (ALPHABETICALLY)

Goodman Group	Real Estate
NEXTDC Ltd	Information Technology
RAM Essential Services Propert	Real Estate
Scentre Group	Real Estate
Stockland	Real Estate

SECTOR BREAKDOWN

Office REITs	2.1%
Retail REITs	17.5%
Diversified REITs	15.4%
Specialized REITs	8.9%
Industrial REITs	30.4%
Real Estate Management & Development	9.4%
IT Services	5.1%
Health Care REITs	4.8%
Residential REITs	2.8%
Cash	3.7%

QUARTERLY OPERATING UPDATES SHOWS RESILIENCE IN EARNINGS

COMMENTARY

The real estate sector is significantly undervalued after a sell off in September (-8.6%) and October (-5.8%) triggered by fears of higher bond yields putting more pressure on valuations and cost of capital.

Whilst further downside risk is possible, particularly for highly geared REITs, we see plenty of opportunities for investments in high-quality names with more favourable outlooks.

For the month of October, the Fund returned -4.7% outperforming the benchmark by 1.0%. This was attributed to our clear strategy to be underweight office and our significant exposure to non-index stocks.

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In the recent quarterly company updates, a majority of REITs have maintained FY23 earnings guidance. At a sub-sector level, office is still doing it tough. **Dexus Group** (DXS) reported that its office portfolio occupancy fell to 94.7%, which is the lowest point since 2014, whilst incentive levels have improved slightly from 30% to 28%. Residential developers such as **Mirvac** (MGR) and Stockland (SGP) reported softer settlement volumes, whilst a modest recovery in presales provided a degree of confidence in reaching their FY24 guidance. **Vicinity's** (VCX) update showed operating metrics are holding up and the consumer is more resilient than feared with strong leasing spreads of +4.5% boosted by sales in luxury (+6.3%) and a recovery in CBD sales growth (+7.2%).

So where to from here?

As it stands, the REIT sector is trading at a 28% discount to fresh NTAs with several trading at or below 40% discounts. We believe the only way to close this gap is through earnings growth and strengthening balance sheets in order to take advantage of market dislocations. Logistics and large retail malls have the best operating conditions to grow earnings with high occupancies (99%), high barriers to entry (lack of availability of land, long planning approval times, and high cost of new construction), and strong population growth providing a favourable macro backdrop for sustainable rental growth.

Another theme that is emerging in the sector is the sale of non-core assets to strengthen balance sheets. This not only sets the REITs up for the next growth phase but also prevents highly dilutive capital raisings as we saw during the GFC and COVID. In Goodman Group's (GMG) market update, they highlighted that the best use of their capital is not only through developments but to acquire assets at below replacement costs in certain markets where there are more motivated sellers looking to reduce debt. GMG has the strongest balance sheet in the sector with gearing of only 8% and available liquidity of $17bn (across the Partnership platforms).

Our differentiated strategy to look for opportunities outside the benchmark, particularly in alternative assets that are driven by secular trends, has protected the portfolio during times of volatility. As the market recovers, our holdings in high quality REITs with strong balance sheets, such as **Goodman Group** (GMG) and **Stockland Group** (SGP), with the capacity to take advantage of opportunities to grow earnings through acquisitions and developments, are well placed to set themselves up for the next growth phase.

FEATURES

APIR CODE	PCL8246AU
REDEMPTION PRICE	A$ 0.9455
FEES *	Management Fee: 0.70% Performance Fee: 15%
MINIMUM INITIAL INVESTMENT	A$10,000
FUM AT MONTH END	A$ 15.31m
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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