

## 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<sup>3</sup>

NUMBER OF STOCKS 17

BETA<sup>4</sup>

MAXIMUM DRAW DOWN -15.8%

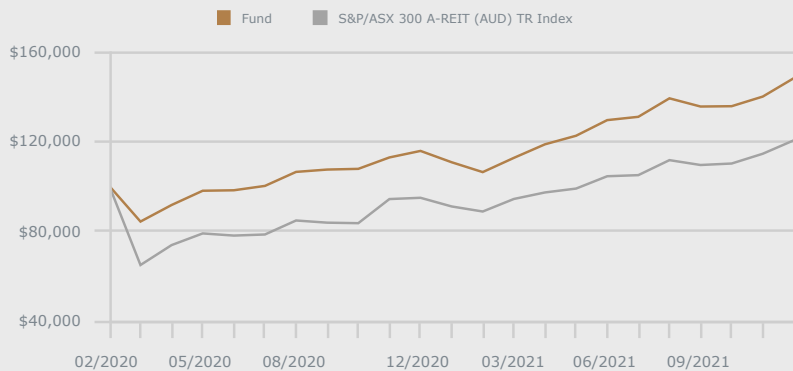
### PERFORMANCE TABLE

NET PERFORMANCE FOR PERIODS ENDING 31 Dec 2021<sup>1</sup>

	1 MTH	1 YEAR	SINCE INCEPTION P.A.
High Conviction Property Securities Fund	5.9%	28.0%	23.8%
S&P/ASX 300 A-REIT (AUD) TR Index	5.2%	27.0%	10.6%

### PERFORMANCE CHART

NET PERFORMANCE SINCE INCEPTION<sup>2</sup>



### TOP HOLDINGS (ALPHABETICALLY)

Centuria Capital	Real Estate
Charter Hall Group	Real Estate
Goodman Group	Real Estate
Ingenia Communities Group	Real Estate
Mirvac Group Property Trust	Real Estate

### SECTOR BREAKDOWN

Retail REITs	6.5%
Diversified REITs	36.3%
Specialized REITs	3.8%
Industrial REITs	24.6%
Internet Services & Infrastructure	5%
Residential REITs	6.3%
Real Estate Development	10.3%
Health Care REITs	3.5%
Cash	3.7%

## A STELLAR YEAR FOR REITS – WILL THIS CONTINUE INTO 2022?

### COMMENTARY

The AREIT sector finished the year on a strong note, delivering 5.2% in December, while the Fund delivered 5.9%.

The Fund also outperformed over the year, generating a return of 28.0% compared to the AREIT sector's return of 27.0%. The sector outperformed the broader equity market over the year by nearly 10%.

With the clock ticking over to 2022, the world will have endured two years of COVID-19. Despite the well-documented challenges, 2021 has been a successful year for AREITs. The rebound, particularly following the success of the vaccine, demonstrates the unique nature of the pandemic for real estate and the resilience of the REIT sector. The sector's performance in 2021 was driven by the investment themes of funds management (CHC +43%, CNI +38%), logistics (GMG +42%, CIP +42%) and storage (NSR +45%), which is consistent with the prior year's successful themes. Retail REITs (URW -6.5%, BWP -2%, VCX +9.8%) and diversified REITs (SGP +7.2%, CMW +7.9%) underperformed with structural shifts challenging these stocks, including online retailing and working from home.

Macroeconomic drivers remain strong for REITs with GDP growth of above 4% coupled with sound corporate balance sheets (average gearing for REITs at 27%) and household savings at an all-time high of 20%. However, three obstacles challenge the outlook over the near term, including ongoing high levels of COVID-19 infections, production and supply chain bottlenecks and an elevated inflation rate. The onset of the new Omicron variant will most likely place some caution on consumer sentiment and employees going back to the office. Whilst CPI remains high at 2.8%, driven by rising food and energy prices, sky-high shipping costs and persistent supply shortages will keep inflation around the top end of the RBA's target band. The question is – will the RBA raise rates to curb inflation and, if so, how will REITs perform in this environment?

Firstly, we have adopted a conservatively high risk-free rate in our valuation of REITs providing us with a buffer in the event of further rate rises. Secondly, it has been shown that during periods of moderate inflation, REITs tend to outperform the broader market. This is because rents are not as sticky as other prices. Long-term leases typically have inflation protection built-in, and shorter-term leases are based on current price levels.

We are of the view that inflation is transitory and will subside as the pandemic is contained. With wage growth only approaching the 3% watermark, we don't expect inflation to be at the high levels seen in the 1970s and early 1980s. To put things into perspective, interest rates are looking to rise but from a very low base. In this environment, we continue to see support for the REIT sector delivering a sustainable forecast income yield of 4%.

We continue to favour REITs with positive free cashflow and a strong balance sheet coupled with active management who can add value through development and capital management. 2022 will be a year of continued structural shifts, favouring the growth of the alternative sectors and increased M&A activities as REITs look to grow and diversify earnings.

## FEATURES

APIR CODE	PCL8246AU
REDEMPTION PRICE	A\$ 1.432
FEES *	Management Fee: 0.70% Performance Fee: 15%
MINIMUM INITIAL INVESTMENT	A\$10,000
FUM AT MONTH END	A\$ 12.76m
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 11<sup>th</sup> 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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### PENGANA.COM

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