

# PENGANA HIGH CONVICTION PROPERTY SECURITIES FUND

## ENVIRONMENTAL, SOCIAL, AND GOVERNANCE POLICY

### INTRODUCTION AND PURPOSE

The Pengana High Conviction Property Securities Fund (“PENPSS” or the “Fund”) is a registered managed investment scheme. Pengana Capital Ltd ACN 103 800 568, a fully owned subsidiary of Pengana Capital Group Limited (“PCG” or “Pengana”), is the responsible entity for the Fund.

The purpose of this policy is to explain the Fund’s approach to incorporating Environmental, Social and Governance (“ESG”) considerations into its investment process. This policy applies to the High Conviction Property Securities Fund, which is managed independently from Pengana’s other funds. It should be read in conjunction with Pengana Capital Group’s ESG policy. Pengana Capital is a signatory to the Principles for Responsible Investment (“PRI”), and a member of the Responsible Investment Association of Australia (“RIAA”).

### MOTIVATION AND BELIEFS

Pengana believes governance policies, environmental footprint and corporate social responsibility all have the potential to impact a company’s valuation and financial performance. In the property sector, ESG issues manifest through a range of particular factors such as energy efficiency, health and safety, pollution and community relations, as well as corporate governance issues such as board structure and shareholder rights.

These issues are considered throughout the investment process as we identify, research and manage investment opportunities. They can be key elements when considering investment return and risk mitigation. We consider ESG factors to the extent that they are relevant to a particular business and may have a material impact on its investment performance.

Our ESG research is conducted internally, allowing us to fully understand the issues as they relate to a particular company’s circumstances and to have meaningful debates with management about our concerns. Our findings are incorporated directly into our valuation model and can have a significant impact on a company’s rank relative to peers.

## ESG FACTORS IN THE PROPERTY SECTOR

The table below summarises how ESG factors relate to the property sector:

	Environment (relating to the company, its tenants and suppliers)	Social (relating to the company, its tenants and suppliers)	Governance (relating to the company)
<b>Factors</b>	Carbon, air and water pollution and land clearing	Health & safety, sustainable consumption, supply chain efficiency & fairness, worker rights & conditions and community engagement	Accounting & audit quality, board structure & performance, remuneration & equity, shareholder rights and engagement
<b>Measures</b>	Sustainability & energy efficiency	Employee engagement, OHS track record, workplace disputes, discrimination or litigation	Quality of capital management
<b>Policies &amp; targets</b>	Environmental policy and future targets to reduce its activities' impact	Stakeholder & community relations	Risk management & compliance

## ESG INTEGRATION

ESG factors are integrated into our fundamental research process and are designed to manage risk and to favour those companies with stronger ESG practices. Our valuation process and ranking models take into account both financial and ESG factors.

As part of our fundamental research process, we engage with each company and use a questionnaire to rank ESG factors in a manner similar to how we rank the quality of management. The questionnaire is tailored to the property securities we invest in, with the results assessed on a relative and absolute basis. We conduct follow up interviews with management to obtain further clarity if required.

Environmental performance and sustainability are considered through NABERS ratings that incorporate energy efficiency, water usage, waste management and indoor environment quality of a building. Importantly, we track how a company is progressing on achieving its sustainability and energy targets as it can have a direct impact on financial outcomes. For example, an efficient building can lower the operating costs of tenants and in return leads to lower vacancies, longer lease terms and higher rents. It can also play an important role in capital management for landlords with cheaper debt available for green buildings and green bonds as a source of funding for some property investors and developers.

Social factors examine how an organization manages relationships with employees, suppliers, customers, and the communities where it operates. This is particularly important for real estate companies that work closely within their communities such as shopping centre landlords or residential developers. Having a diverse and inclusive culture, for example, not only attracts future talent but can drive superior outcomes in delivering a product that suits the community that it operates in.

Governance deals with factors such as a company's leadership, executive pay, audits, internal controls, and shareholder rights. Good governance is the key in delivering good "E" and "S" outcomes. Having a strong and independent board with

an appropriate long term investment strategy and an incentive structure that is aligned to investors provides a strong foundation for delivery of a company's "E" and "S" objectives.

We screen out companies that have persistent United Nations Conventions breaches and companies that we deem to have poor Corporate Governance as we believe this represents a direct risk to shareholders. Companies with exposure to unethical sectors such as gaming/gambling, tobacco and nicotine alternatives, alcohol, controversial or nuclear weapons, fossil fuels are marked down in terms of the "E" and "S" scores in our valuation model based on the level of income that is generated from these sectors.

In terms of implementation, our investment universe consists of 51 securities with a market capitalisation of more than \$50m. The investment universe includes AREITs, Real Estate Developers and Fund Managers.

Out of this universe, one security is currently screened out based on Corporate Governance factors, resulting in an investable universe of 50 securities. Of the remaining securities, most rank well across the ESG matrix with high NABERS ratings and good Governance relative to global peers.

#### AVOIDING SIGNIFICANT HARM

The Fund does not invest in producers of tobacco, manufacturers of nicotine alternatives and tobacco-based products, or companies involved in the development and production of controversial or nuclear weapons.

#### ACTIVE OWNERSHIP

Through our ongoing research process and the ESG questionnaire described above, we engage with investee companies to gain an understanding of both financial and ESG issues.

ESG issues covered are company specific and range from supply chain management to product quality and safety to ecological impacts of operations. We will raise issues that we believe have the potential to erode shareholder value, however due to the Fund's relatively small size we will consider joining shareholder action groups.

We consider voting at company meetings such as Annual General Meetings a key part of our fiduciary duty to maximise long term shareholder value. Voting is not outsourced to a third party and we provide copies of our voting record to investors on request.

#### MONITORING

Pengana Capital Group's ESG Committee meets monthly and agenda items include monitoring of the portfolio for negative screen compliance and, to the extent they are covered by a third party monitoring service, the Committee monitors the ESG risk of investee companies, considers new and ongoing controversies, reviews voting records, and monitors the sustainability and carbon risk of the portfolio against peers and appropriate benchmarks.

#### REVIEW AND ASSESSMENT

This Policy will be reviewed and updated from time to time to ensure that it remains relevant, current and compliant with all applicable laws, and corporate and community expectations.

#### DATE

Last review April 2023