PENGANA HIGH CONVICTION PROPERTY SECURITIES FUND

ENGAGEMENT REPORT

12 Months to 31 December 2023

Voting Summary

	Number	Percentage
Number of votable meetings	12	
Number of meetings voted	12	100%
Number of meetings with at least 1 vote Against, Withhold or Abstain	2	17%

	Number	Percentage
Number of votable items	74	
Number of items voted	74	100%
Number of votes FOR	69	93%
Number of votes AGAINST	5	7%
Number of votes ABSTAIN	0	0%
Number of votes on MSOP	12	16%
Number of votes on Shareholder Proposals	0	0%

Company Engagement Summary

113 company meetings in the last 12 months to 31 December 2023

81 Small group company meetings

26 1-1 Company management meetings

6 Property tours

Engagement Examples

Case Study – Corporate Culture

Objective of Engagement

The objective of engagement was to understand whether the resignation of the CEO raised any ESG related risks that would impact the ESG score for Company A.

Summary of issue and engagement

Company A announced the upcoming retirement of its CEO without providing a reason and initiated a search for a replacement. Within a month, an acting CEO was appointed, accelerating the retirement of the existing CEO.

Through engagement with institutional investors, we understood that the previous CEO's sudden departure was linked to misconduct allegations.

A meeting with the company revealed that an independent external review had been conducted regarding the previous CEO's conduct. The review concluded that it was an isolated issue and not indicative of a widespread problem within the company. The company further confirmed that both short-term and long-term incentives due in the financial year had been forfeited.

Outcome

Following the above engagement activities and our review of the details around the resignation of the CEO, we resolved to maintain a strong “G” score for the company.
We regard the board’s decision to bring forward the CEO’s retirement and subsequent external review as evidence of strong corporate governance practices.

Case Study – Climate Change Risk

Objective of Engagement

The engagement aimed to assess the risk to development earnings related to floods and fires and understand management's approach to addressing climate risk.

Summary of issue and engagement

Climate risk can lead to labour shortages, making developments more challenging and impacting land values. Insurance coverage for properties in high-risk areas affected by fire or flood may be difficult to obtain, affecting property values and the value proposition for customers.

The company announced a series of earnings downgrades due to supply chain challenges, labour shortages and adverse weather impacts.

Concerns around wet weather and growing news of builders under pressure led us to contact management of A-REITs in the residential sector for further information to assist us in assessing risk to development projects and earnings.

We conducted research to map out flood and fire risk zones in Australia and overlay these with locations of projects of residential developers. This enabled us to identify projects that are located in high-risk zones.

Through our proprietary financial models, we assessed the proportion of earnings over the next two years that were derived from development projects located in these high-risk zones. Our analysis identified the company as one of the companies with higher risk to earnings, with over 10% of forecasted earnings in FY23 and FY24 exposed to flood/fire risk.

We met with the company’s management to discuss their management of climate related risk to development projects.

Outcome

Engagement with management and our internal analysis led us to take the following actions:

- Marked down the ESG score in our valuation model;
- Sold down the Fund’s holding; and
- We added an additional question to our ESG questionnaire that is sent out to all companies in our investable universe, requesting details on the processes of how the company is managing bushfire and flooding risk within the property portfolio.

Case Study – Governance

Objective of Engagement

There were concerns raised about the independence of a Non-Executive Director due to their involvement in investment ventures. The director's company and a fund in which the director held a 50% ownership stake received investments from the company. The board determined that these matters did not affect the director's independence.

Summary of issue and engagement

Research Findings & Considerations:

An analysis was conducted to assess if these matters violated the company's Conflicts of Interest policy. The policy did not specify any prohibited activities, and the director's investments were disclosed in the company's annual report. The investment amount was deemed immaterial from the company's perspective. From the director's perspective, the investments represented a smaller contribution to their overall activities. The director had other investments and ventures unrelated to the company.

One-Off or Recurring Matter:

There were no similar investments or transactions with other directors and executives in previous annual reports. Therefore, it does not appear to be a recurring matter, but ongoing monitoring will be conducted.

Tenure of the Director:

The director had been on the company's board for over four years and held positions in committees. While tenure was considered, it alone did not significantly impact the director's independence.

Outcome

While the company's Governance rating was reduced, it was based on a separate issue with the Remuneration Report. Regarding this particular matter, the team decided to maintain the company's rating and continue monitoring the situation. Further review will occur if additional investments are made in ventures connected to the director.

Dated 31 December 2023