

Pengana High Conviction Property Securities Fund

This report has been prepared for financial advisers only



Favourable

October 2023

INTRODUCTION

Key Principles

SQM Research considers (but is not restricted to) the following key review elements within its assessment:

1. Business profile - product strategies and future direction
2. Marketing strategies and capabilities, market access
3. Executive Management / Oversight of the investment management firm
4. Corporate Governance / fund compliance / risk management
5. Investment team and investment process
6. Fund performance, investment style, market conditions, investment market outlook
7. Recent material portfolio changes
8. Investment liquidity
9. Investment risks
10. Fund/Trust fees and expenses

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Report Date: 25 October 2023

Star Rating*	Description	Definition	
4½ stars and above	Outstanding	Highly suitable for inclusion on APLs <i>SQM Research believes the Fund has considerable potential to outperform over the medium-to-long term. Past returns have typically been quite strong. Product disclosure statement (PDS) compliance processes are of a high-calibre. There are no corporate governance concerns. Management is extremely experienced, highly skilled and has access to significant resources.</i>	High Investment grade
4¼ stars	Superior	Suitable for inclusion on most APLs <i>SQM Research considers the Fund has substantial potential to outperform over the medium-to-long term. Past returns have tended to be strong. PDS compliance processes are high-quality. There are no material corporate governance concerns. Management is of a very high calibre.</i>	High Investment grade
4 stars	Superior	Suitable for inclusion on most APLs <i>In SQM Research's view, the Fund has an appreciable potential to outperform over the medium-to-long term. Historical performance has tended to be meaningful. PDS compliance processes are strong. There are very little to no corporate governance concerns. Management is of a high calibre.</i>	High Investment grade
3¾ stars	Favourable	Consider for APL inclusion <i>SQM Research concludes the Fund has a moderate potential to outperform over the medium-to-long term. Past performance has tended to be reasonable. Management is experienced and displays investment-grade quality. There are no corporate governance concerns, or they are of a minor nature.</i>	Approved
3½ stars	Acceptable	Consider for APL inclusion <i>In SQM Research's view, the potential for future outperformance in the medium-to-long term is somewhat uncertain. Historical performance has tended to be modest or patchy. Management is generally experienced and capable. SQM Research has identified weaknesses which need addressing in order to improve confidence in the Manager.</i>	Low Investment grade
3¼ stars	Caution Required	Not suitable for most APLs <i>In SQM Research's opinion, the potential for future outperformance in the medium-to-long term is very uncertain. Historical returns have tended to be disappointing or materially below expectations. PDS compliance processes are potential substandard. There are possible corporate governance concerns. Management quality is not of investment-grade standard.</i>	Unapproved
3 stars	Strong Caution Required	Not suitable for most APLs <i>In SQM Research's opinion, the potential for future outperformance in the medium-to-long term is unlikely. Historical performance has tended to be unacceptable. There may be some material corporate governance concerns. SQM Research has a number of concerns regarding management.</i>	Unapproved
Below 3 stars	Avoid or redeem	Not suitable for most APL inclusion	Unapproved
Event-driven Rating		Definition	
Hold		<i>Rating is suspended until SQM Research receives further information. A rating is typically put on hold for a period of two days to four weeks.</i>	
Withdrawn		<i>Rating no longer applies. Significant issues have arisen since the last report date. Investors should consider avoiding or redeeming units in the fund.</i>	

* The definitions in the table above are not all encompassing and not all individual items mentioned will necessarily be relevant to the rated Fund. Users should read the current rating report for a comprehensive assessment.

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SQM Rating ★★★★★

Favourable. Consider for APL inclusion.

Fund Description	
Fund Name	Pengana High Conviction Property Securities Fund
APIR code	PCL8246AU
Asset Class	AREITs
Management and Service Providers	
Fund Manager	Pengana Capital Limited
Responsible Entity	Pengana Capital Limited
Fund Information	
Fund Inception Date	11 March 2020
Fund Size	\$15.90 million
Return Objective (per PDS/IM)	To obtain returns greater than the S&P/ASX 300 A-REIT (AUD) TR Index ('Index') over rolling 3-year periods (after fees).
Internal Return Objective	Not Applicable
Risk Level (per PDS/IM)	Medium
Internal Risk Objective	Not Applicable
Benchmark	S&P/ASX 300 A-REIT TR Index
Number of stocks/positions	10-20
Fund Leverage	None
Portfolio Turnover	Expected to be Low/Medium (Average 40-50%)
Top 10 Holdings Weight	Approximately 65-85%
Investor Information	
Management Fee	0.70% p.a.
TCR (Total Cost Ratio)	0.70% p.a.
Buy Spread	0.25%
Sell Spread	0.25%
Performance Fee Rate	15% (refer to the fee section for details)
Minimum Application	\$10,000
Redemption Policy	Daily
Distribution Frequency	Quarterly
Investment Horizon	5 years
Currency Hedging Policy	Not Applicable

SUMMARY

Fund Summary

Description

The **Pengana High Conviction Property Securities Fund (the "Fund")** is an actively managed listed property securities portfolio that invests principally in Australian Real Estate Investment Trusts (AREITs). The Fund may also invest up to 10% of its assets in listed (or soon-to-be listed) International property securities (or GREITs). Pengana includes property developers and other companies associated with the property sector as part of its investible universe.

The Fund aims to provide capital security, income yield and sustainable growth. It seeks to achieve this by identifying mispriced securities via a strategy built on two pillars – through a high conviction and ESG-focused approach – and diversifying into new growth sectors.

The Fund employs an active and **fundamental** approach to research. The process is predominantly bottom-up, with a top-down sectoral/thematic overlay as a starting point. The Fund is **benchmark unaware, concentrated**, and has a **small/mid-cap bias** (relative to the Index). The Fund's investment objective is to obtain returns greater than the S&P/ASX 300 A-REIT Accumulation TR Index ('Index') over a rolling 3-year period after fees.

The Fund is structured as an open-ended unlisted registered managed investment scheme.

Fund Rating

The Fund has achieved the following rating:

Star Rating	Description	Definition	Investment Grading
3.75 stars	Favourable	Consider for APL inclusion	Approved

Previous Rating: 3.75 stars (Issued Nov 2022)

SQM Research's Review & Key Observations

About the Manager

Pengana Capital Limited (the Fund's Responsible Entity and Manager) was established in 2003 (AFSL 226 566 granted 7 May 2003) and is a wholly owned subsidiary of Pengana Holdings Pty Ltd, which is a wholly owned subsidiary of Pengana Capital Group Ltd (PCG). Pengana Capital Group is a Funds Management group specialising in listed and unlisted equities. Their focus is on delivering distinct investment strategies that deliver superior risk-adjusted returns to investors, focusing on

capital preservation. On 1 June 2017, Pengana merged its business with Hunter Hall International Limited. Upon completion of the merger, Hunter Hall was renamed Pengana Capital Group Limited (PCG).

Pengana is a diversified funds management group that manages over AUD\$3.5 billion across a range of international and Australian strategies that aim to deliver superior long-term risk-adjusted returns to investors, with a focus on capital preservation. Each strategy is run by a separate investment team with unique skills relevant to their investment class. Pengana was founded on the premise that alignment between a fund manager and its investors is crucial. The business and their funds are structured and managed within this framework. Their business model also delivers centralised support from their corporate team so that their fund managers can focus on managing portfolios.

Pengana is based in Sydney, Australia, with additional offices in Melbourne, Brisbane, and Perth. The directors and staff currently own circa 45% of the business, which is profitable. Pengana manages about A\$3.4 billion and has about 50 staff members.

Investment Team

The investment team, responsible for stock selection, portfolio construction and portfolio management comprises **Amy Pham**, Portfolio Manager, **Jade Ong**, Investment Specialist and **Sam Craig**, Investment Analyst. The team is led by Amy Pham who has over 21 years' of experience, Jade Ong who has over 18 years' of experience in investing and A-REIT Securities and Sam Craig with 6 years of property and finance experience.

The team resides in the Sydney office and employs a flat structure with all members involved with idea generation, company analysis and portfolio management. Amy Pham has final responsibility for portfolio management decisions and performance including analysis, research and fund reporting. Both Jade and Sam assist Amy in strategy and analysis. Sam also provides trading back-up to Amy when required.

The Investment Committee for the Fund is overseen by Nick Griffiths, Pengana CIO, who is responsible for reviewing investment process, adherence to mandate and assessing ESG framework. The Investment Committee meets monthly to review strategy, portfolio positioning and adherence to mandate.

Considering the investment process, the size of the AREITs universe and the size of the team, SQM Research is of the opinion that the Key Person risk (in Amy Pham) is elevated and rated 'medium'.

1. Investment Philosophy and Process

Investable Universe

The Pengana High Conviction Property Securities Fund is Australia's only high conviction AREIT fund with an ESG focus. The Fund invests principally in listed (or soon to be listed) Australian property securities. The Fund may also invest up to 10% of its assets in listed (or soon to be listed) International property securities and in the shares of property developers and other companies associated with the property sector. The Fund's investment objective is to obtain returns greater than the S&P/ASX 300 A-REIT Accumulation (AUD) TR Index ('Index') over a rolling 3-year period after fees.

Philosophy / Process / Style

The Manager believes each security has an underlying or intrinsic value and that securities become mispriced at times relative to their value and each other. In particular real estate is a long term asset with intrinsic value and at times it can be mispriced due to various factors such as investor sentiment or temporary market shocks.

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 related businesses.

The Fund seeks to identify mispriced securities through a high conviction approach. The concentrated portfolio enables investment in the best positioned assets and sectors at any point in time. The Manager adopts a bottom up investment approach with thematic overlays to benefit from cyclical and structural changes whilst focusing on analysing the quality and potential cashflow for each security.

The Manager believes that responsible investing is important to generate long term sustainable returns. Incorporating ESG factors alongside financial measures provides a complete view of the risk/return characteristics of our property investments.

The Fund aims to provide capital security, income yield and sustainable growth. It seeks to achieve this by identifying mispriced securities via a strategy built on two pillars – through a high conviction and ESG focused approach.

Pengana's High conviction is based on the view that the AREIT sector is highly concentrated and that benchmark aware managers lack the ability to generate alpha. Pengana is of the view that a high conviction approach enables investment in the best positioned assets and sectors at any point in time, with opportunity to bring

new ideas to investments still driven by real estate fundamentals. The Fund seeks investment opportunities in new growth sectors driven by secular trends such as logistics and distribution centres, renewable energy, residential for rent, aged care, child care, student accommodation, community living, healthcare, data centres, transport and agriculture, all of which provide defensive sustainable growth and diversification from core real estate sectors (i.e. office, retail and industrial). We undertake our own propriety research in assessing both qualitative and quantitative factors to build a concentrated portfolio from an investable universe of Australian Real Estate Investment Trust (AREITs), Real Estate Fund Managers and Developers and other real estate related businesses. Key focuses are quality of management, quality assets which are able to generate sustainable free cashflow and a strong balance sheet to support future growth. The team has continued to expand its coverage of stocks and sector analysis. Currently, the team has 44 financial models (including all portfolio positions) and will look to build out to cover its 50-stock universe. This is particularly important for the Fund as it has a bias towards mid to small-cap stocks, which are not widely covered by broking analysts.

ESG: ESG factors are integrated into the fundamental research process and are designed to manage risk. Pengana believes ESG factors are important to generate long term sustainable returns, and the valuation process and ranking models take into account ESG factors alongside financial measures to provide a complete view of the risk/return characteristics of investments. Pengana's ESG research is conducted internally, allowing them to fully understand the issues as they relate to a particular company's circumstances and to have meaningful debates with management about their concerns. Pengana's findings are incorporated directly into the valuation model and can have a significant impact on a company's rank relative to peers.

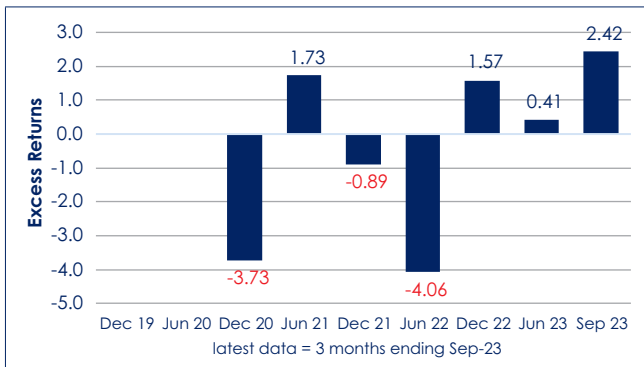
2. Performance & Risk

Return Objective

The investment/return objective stated in the PDS is: "The Fund aims to "obtain returns greater than the S&P/ASX 300 A-REIT (AUD) TR Index ('Index') over rolling 3-year periods after fees".

As stated in the PDS, the Fund's benchmark is the "**S&P/ASX 300 A-REIT (AUD) TR Index**".

Fund Excess Returns %: Half-yearly (net of fees)



Length of Track Record

The Pengana High Conviction Property Securities Fund has a history of 3.5 years (or 42 months).

Observations and analysis of returns will have moderate statistical meaning as a result of the sample size of observations.

Risk Objective

The Fund's PDS states that the Fund's risk level is "**Medium** when an investment in the Fund is held for at least 3 years". The PDS also states that "The risk of loss over the shorter term is **high** when compared to managed investment schemes that invest in asset classes such as cash or fixed interest securities."

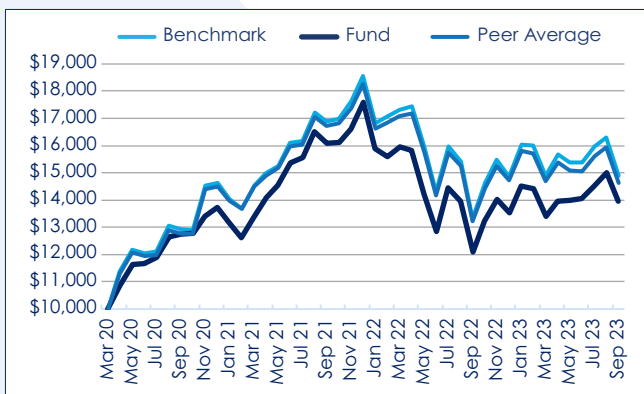
Fund Performance to 30 September 2023 (% p.a.)

Total Return	1-Month	3-Month	6-Month	1-Year	3-Year	5-Year	Inception
Fund	-6.93	-0.62	4.14	15.64	3.07	.	10.01
Benchmark	-8.66	-3.04	0.02	11.94	4.89	.	12.06
Peer Average	-8.10	-2.78	-0.24	10.69	4.61	.	11.46
Alpha	1.73	2.42	4.13	3.70	-1.82	.	-2.05

With dividends reinvested. Returns beyond one year are annualised. Return history starts Apr-2020

Benchmark: S&P/ASX 300 A-REIT TR

Growth of \$10,000



SQM Research notes that whilst the Fund's inception date was 11 March 2020, it was not fully invested until the end of March, and therefore the performance tables in this report will use returns starting April 2020. The manager's track record, which starts in March 2020, shows annualised performance since inception of 4.6%, 5.6% above the Benchmark. The Fund outperformed in March 2020 and underperformed in April 2020 as a result of the high cash weight before the Fund was fully invested.

Strengths of the Fund

- Pengana has built up a long track record (19 years) of managing money across various Funds, specialising in Australian & International Equities. Pengana currently manages about \$3.4 billion in FUM and has over 50 employees.
- The Fund's investment team is experienced and knowledgeable. Ms Amy Pham and Ms Jade Ong have significant industry experience, and Nick Griffiths (CIO) is highly experienced. Additionally, the broader Pengana investment team is large and experienced.
- The investment/research process is robust and has been consistently applied by the Portfolio Manager Amy Pham, to build high-conviction portfolios for many years.
- The Fund has a relatively high Active Share and a significantly high allocation to non-index stocks. This provides it with the additional ability to generate alpha and also improves the diversification of the portfolio by avoiding the high concentration risk of the index and investing in 'Alternative' property sectors driven by secular trends.

Weaknesses of the Fund

- Compared to some of the other Funds Management firms, Pengana does not have any prior experience in managing an AREITs Fund, although it has managed property Funds in the past. This is largely mitigated by the AREITs experience of this new Portfolio Management team (as noted above) and the AREITs experience of the broader Australian Equities team.

Other Considerations

- The Fund has a capital preservation focus and a higher Cash holding (on average). Therefore, in bullish/strong market conditions, the Fund may slightly underperform (on a relative basis). Conversely, the Fund is more likely to outperform in negative or mildly positive market conditions.
- The Fund is a high-conviction, benchmark-unaware Fund and displays a small/mid-cap bias relative to the Index.
- The ESG component of the investment process is a key differentiator. In addition to the fundamental bottom-up research, the screening process uses an 'ethical' filter, by which securities that have >10% of their income from 'unethical' sectors (gaming, tobacco, alcohol and fossil fuels), as per the definition adopted by Pengana, are marked down, and securities with poor corporate governance are excluded. SQM Research has discussed the value add/attribution of the ESG/Ethical filters with the Manager.
- Some of the Key Metrics of the Fund include: The Active Share has averaged about 50%, the Dividend Yield of the portfolio holdings is about 3.0%, and allocation to non-index stocks is material/high (has averaged about 15-20%).

Key Changes Since the Last Review

- In late 2022, the adjustments were made to the Fund's risk limits where if a security has a weighting of >20% of the Benchmark, the Fund can now invest up to the Benchmark weight of the security. This change is designed to neutralise the effect that benchmark-dominating stocks such as Goodman Group can have on Tracking Error.

Investment Process Diagram



Process Description

Investment Process

Research and Portfolio Construction Process

The Fund is bottom-up, with a top-down sectoral/thematic overlay as a starting point.

Top-down

- The top-down part of the process aims to pick the best core sub-sectors with a 2-3 year growth horizon and identify new growth sectors driven by secular trends. It combines macroeconomic factors with real estate sub-sector analysis in order to identify different points in the property cycle.

Bottom-up

- The bottom-up research uses a range of quantitative and qualitative factors to identify the A-REITs that are competitive and likely to outperform over the next one to three years.
- The proprietary Valuation Ranking Model proportionally increases or decreases the total return (TR) based on a variety of quantitative (5) and qualitative (4) factors. This forms a starting point for discussion amongst team members for stock selection, portfolio weights and portfolio monitoring.
- A key differentiator is the incorporation of ESG into the valuation process. The approach is qualitative in that the team engage with companies to rank them in terms of "E," "S," and "G," similar to how they rank the quality of management using an in-house questionnaire.
- The team formally models key financial metrics for smaller capitalisation or non-benchmark stocks, which are not as widely covered. For larger, more widely covered stocks, the team utilises the best external research analyst models for the particular stock (not consensus).

Investment Process

Research
and Portfolio
Construction
Process*...continued*

Idea Generation & Screening

Ideas are generated and assessed through the following means:

- Pengana's broader research team/equities specialists provide a forum for understanding macro movements and sharing research ideas whilst allowing fund managers the flexibility to make investment decisions appropriate for their strategy.
- Amy Pham, Sam Craig and Jade Ong attend all company management meetings and property tours within their universe as an integral part of the idea generation, company valuation and portfolio maintenance processes.
- Access to external research is considered a valuable resource in supplementing idea generation, understanding industries, and facilitating access to company management. Long-term relationships with the major banks and boutique investment banks assist in this regard.

They screen out securities with a market capitalisation of <\$50m or securities that have poor corporate governance.

Research and Stock Selection

In addition to the above, the inputs to their research include:

Financial modelling - including the analysis of income statements, balance sheets and cash flow statements.

Discussions with all market participants: asset owners, operators, developers, investors, and leaseholders.

An ESG questionnaire.

Both qualitative and quantitative factors (at 50% weighting each) are incorporated into the valuation ranking model. The model calculates the forecast Total Return (TR) for each security based on the 1-year forecast yield and 3-year forecast eps growth and weighs this with respect to 9 factors to generate a relative valuation rank. The primary focus of the valuation process relates to the company's ability to generate sustainable free cash flow and a strong balance sheet to support future growth.

Special Focus:

- Research interpretation; risk vs. reward
- Changes in industry & company dynamics
- Asset quality and the security of income
- Weighted Average Lease Expiry (WALE)
- Cash-flow and financial flexibility
- High-quality stocks out of favour with the market, potential mispricing

Investment Process

Research
and Portfolio
Construction
Process

...continued

In the team's opinion, ESG issues can have a measurable effect on a company's value and reputation. They invest in quality companies that generate sustainable returns by incorporating ESG factors as part of their risk analysis process. Their approach is qualitative in that they engage with companies to rank them in terms of "E," "S," and "G." For example, under "E" (Environment), they track how a company is progressing in achieving its sustainability and energy efficiency targets. This is important as it lowers tenants' operating costs and leads to lower vacancy rates, longer leases (WALEs) and higher rents. The team has compiled its own ESG questionnaire to rank each company, similar to how they rank the quality of management. Securities that have >10% of their income from 'unethical' sectors (gaming, tobacco & alcohol), as per the definition adopted by Pengana, are marked down in the investment process.

SQM Research comment: As a general comment on some of the ESG/Ethical Processes and Funds in the broader space (not just this Strategy). Advisers and Investors should be aware that Sustainable/ESG/Ethical concepts are subjective and therefore dependent on individual opinions.

Portfolio Construction

Following the screening process outlined above, an understanding of the fundamentals and outlooks for those opportunities (stocks) is developed using financial statements, journals, transcripts, company meetings and external research. In the normal course of events, trades that require allocating (e.g., allocations from a broker, including IPOs) will be allocated proportionally. Mandates with different risk limits, mandate rules or exposures are taken into account.

Buy decisions would be based on the following:

- Fundamental quality first, then the valuation
- Non-fundamental factors (appetite for risk, M&A, behavioural investing, technical, indexation, register)
- Risk/reward assessment, no matter how compelling

Portfolio construction incorporates both the results from "bottom-up" security analysis and "top-down" research. This is combined with the investment team's judgment and experience, particularly with regard to the assessment of management quality and ESG factors.

Allocations (weights in the portfolio) to the stocks are based on conviction and sector diversification. For index stocks, holdings/weights are between 0%-20%. For non-index stocks, holdings are between 2%-5%. In addition, the Fund can also allocate up to 10% of the portfolio to GREITs and real estate related companies.

It is the objective to be near fully invested at all times. The cash allocation is a function of the bottom-up investment process, with cash increasing when suitable equity investment opportunities cannot be identified. The maximum cash holding is 20% (the long-term expected cash, on average, is expected to be around 0 to 5%).

Investment Process

Research
and Portfolio
Construction
Process*...continued*

Sell Discipline

The decision to Sell would consider factors like:

- If either qualitative or valuation criteria have been compromised or misjudged,
- Fully valued with better risk-return reward elsewhere in the universe,
- Change in view on thematic or fundamental change of the security's characteristics – change in strategy, management, or ownership.

Risk Management

The Risk Management process (and constraints) include the following:

- Risk, including volatility, is managed at the individual stock level and the overall portfolio level.
- Monitoring of risk limits is performed daily by a Risk Analyst independent of the portfolio management team. The Analyst generates risk reports reviewed daily by the CIO or Performance and Risk Manager and monthly by a Risk Committee that includes the CIO, COO, and Head of Operations.
- Tracking error is not targeted due to the benchmark unaware nature of the Fund. More relevant are volatility and drawdown. However, a numerical risk target is not targeted.
- Stop-losses and trade review triggers are not used.
- The Firm has an internal breach reporting and escalation process.
- Currency risk: The Fund does not hold GREITs yet. Any holdings in GREITs would not be hedged.
- Derivatives: not utilised, however, they may be used for risk management purposes.
- Short Positions: not allowed.
- Operational Risk: monitored independently by the operations team. The independent risk management team monitors counterparty risks.
- The team uses the risk modules in Bloomberg Portfolio and Risk Analytics (PORT) for performance and risk analysis.

Portfolio risk constraints/details are listed at the end of the report.

Investment Process**Research
and Portfolio
Construction
Process***...continued***Portfolio Characteristics**

Portfolio Biases/Preferences The fund will likely have a small cap bias with some exposure outside of Australian REITs such as data centre businesses or international REITs.

Portfolio Turnover and Active Share

Portfolio Turnover is expected to be in the range of 40-50% per annum we note that the two-year average has been above the top of the range at 52.5% but has averaged 40.1% over the last two years to 30 September.

Liquidity

There are no formal liquidity limits however the liquidity of individual positions and the overall portfolio are monitored daily to ensure they are commensurate with the Fund's mandate and objective.

Leverage

This Fund does not employ direct leverage (through borrowing by the Fund) **or** economic leverage (through the use of derivatives).

Key Counterparties



Parent Company

Pengana Capital Limited (the Fund's Responsible Entity and Manager) was established in 2003 (AFSL 226 566 granted 7 May 2003) and is a wholly-owned subsidiary of Pengana Holdings Pty Ltd, which is a wholly-owned subsidiary of Pengana Capital Group Ltd (PCG). Pengana Capital Group is a Funds Management group specialising in listed and unlisted equities. Their focus is on delivering distinct investment strategies that deliver superior risk-adjusted returns to investors, focusing on capital preservation. On 1 June 2017, Pengana merged its business with Hunter Hall International Limited. Upon completion of the merger, Hunter Hall was renamed Pengana Capital Group Limited (PCG).

Pengana's investment products employ active strategies with non-benchmark mandates, giving their investment teams the freedom to invest in their best ideas. Their business model also delivers centralised support from their corporate team so that their fund managers can focus on managing portfolios. Pengana strives to give investors access to global funds management strategies, strategies that will impact portfolio returns. They aim to do this through their in-house investment teams and by partnering with investment managers worldwide.

Pengana is based in Sydney, Australia, with additional offices in Melbourne, Brisbane, and Perth. The directors and staff currently own circa 45% of the business, which is profitable. Pengana manages about A\$3.4 billion and has about 50 staff members.

Investment Manager / Fund Manager

Pengana Capital Limited ("PCL;" AFSL 226 566 granted 7 May 2003) is a wholly-owned subsidiary of Pengana Capital Group Limited ('PCG').

Governance

Responsible Entity

The Board of Directors of the Responsible Entity (Pengana Capital Limited) consists of **3** directors, **none** of whom are independent. SQM Research prefers the inclusion of independent members on the Board of Directors – it is a meaningful way to enhance governance and oversight. Board members have an average of **31.7** years of industry experience.

The Responsible Entity's **Compliance Committee** is composed of **3** members, **2** of whom are independent. The Chair **is** independent. SQM Research views independence in a RE oversight body such as the Compliance Committee as a strong and favourable factor in Fund governance. Compliance Committee members have an average of **37.3** years of industry experience.

Management Risk

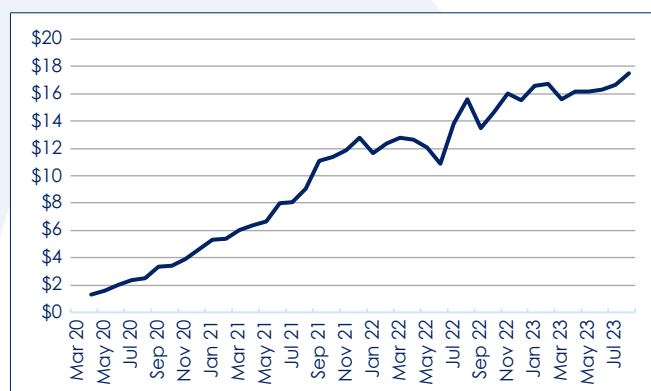
Funds management businesses rely on the operational capabilities of key counterparties. A critical element is the ability of the Responsible Entity to monitor operational performance and to meet the regulatory and statutory responsibilities required. For any investment fund, there is a risk that a weak financial position or management performance deterioration of key counterparties could temporarily or permanently compromise their performance and competency. This can adversely affect financial or regulatory outcomes for the Fund or associated entities.

Based on the materials reviewed, SQM Research believes that Pengana Capital Limited and the associated key counterparties are appropriately qualified to carry out their assigned responsibilities. Management risk is rated as 'low/modest.'

Funds under Management (FUM)

The Fund is approximately **\$17.5 million** in size as of **Sep-2023**.

FUM for Fund under Review (\$mill)



Distributions

Distributions occur on a quarterly basis, subject to the availability of distributable income. In a scenario where the Fund's realised losses and expenses exceed income in a distribution period, the Fund may elect not to make a distribution during that time.

Distribution Date	Distribution CPU
Jun-21	2.34
Dec-21	1.90
Mar-22	1.70
Jun-22	5.93
Sep-22	0.96
Dec-22	1.00
Mar-23	0.47
Jun-23	1.68
Sep-23	0.71

Name	Responsibility / Position	Location	Years at Firm	Years in Industry
Amy Pham	Portfolio Manager & Investment Analyst	Sydney	3.5	28.0
Jade Ong	Investment Specialist	Sydney	3.5	20.0
Sam Craig	Investment Analyst	Sydney	1.6	6.5

Investment Team

The investment team comprises two experienced AREIT managers, Ms **Amy Pham** (Portfolio Manager and Analyst), Ms **Jade Ong** (Investment Specialist), responsible for stock selection, portfolio construction and portfolio management and **Sam Craig** (Investment Analyst) who in addition to research and analysis also provides trading back-up to Amy when required.

The team is based in the Sydney office and employs a flat structure, with all team members involved in idea generation, company analysis and portfolio management. Ms Pham has final responsibility for portfolio management decisions and performance, including analysis, research, and fund reporting. Ms Ong assists Ms Pham in strategy, analysis and provides backup to her. They worked together previously at IAG for 3 years, so there is tenure in their working relationship, which is important for a small team in terms of interaction and collaboration.

The Investment Committee for the Fund is overseen by Mr **Nick Griffiths** (CIO of Pengana Capital), who is responsible for reviewing the investment process, adherence to the mandate and assessing the ESG framework. The Investment Committee meets monthly to

review the strategy, portfolio positioning and adherence to the mandate.

Amy Pham has a direct profit share in the Property Securities business unit. The direct ownership interest in the separate business entities & the profit share component of the remuneration is a positive for retention & alignment of interests. Capacity limits and performance fees further focus the monetary incentive on Fund performance. She also has a significant personal investment in the Fund.

As a general note on employment arrangements: Several PMs of the broader Pengana Equities team are contractors (rather than direct Pengana employees). These PMs are employed by a separate business entity in which they are an Equity holder along with Pengana. This is a relatively less common business model for Funds Management firms operating Managed Funds under their own brand name. However, some boutique firms do use a similar type of business model/employment arrangement. That said, the direct ownership interest in the separate business entities & the profit share component of the remuneration (for those Pengana PMs) may be a positive for retention & alignment of interests (at least for some staff members).

Meeting Schedule

The table below shows regular meetings that form an essential part of the overall process.

Meeting	Agenda	Frequency	Participants
Security research	Where new opportunities/ ideas are in the markets, investment process, Q&A and research findings	Daily	Investment Team
Portfolio construction	To monitor and discuss portfolio management and overall portfolio holdings & weights and any potential issues.	Weekly	Investment Team
Investment Committee	To discuss macro environment, portfolio positioning, risk, ESG issues	Monthly	Pengana CIO & Investment Team

SQM Research believes the practice of constant communication and the broad-based inclusion of team members in decision-making is a vital ingredient to the success of the process. Interactive peer review and collaboration across a tightly knit group of experienced investors will likely make the best use of their combined intellectual property and shared history.

Staffing Changes

Departures			
Date	Name	Responsibility	Reason for Departure
None			

Additions			
Date	Name	Position / Responsibility	Previous Position / Employer
06-Dec-21	Sam Craig	Investment Analyst	Research Analysis at Charter Hall

SQM Research observes that the levels of investment experience and company tenure are strong across the investment team. The size and nature of staff turnover are not an issue of concern, in SQM's view.

Remuneration and Incentives

Base salaries are based on industry comparators and reviewed annually. Senior investment professionals have (direct) profit shares in their business units and are rewarded for Fund performance and Assets under Management (AUM). Capacity limits and performance fees focus the monetary incentive more tightly on Fund performance.

The Portfolio Manager of the Fund also has a personal investment in the Fund.

SQM Research believes remuneration in the form of firm equity and client-focused performance bonuses act as strong incentives for optimising staff engagement, retention, and productivity. The intention (and SQM believes the effect) is to align staff performance with client and shareholder objectives. It focuses on the customers' needs and medium to long-term results.

Fees and Costs	Fund	Peer Avg
Management Fee % p.a.	0.70%	0.85%
Expense Recovery/Other Costs % p.a.	–	–
Performance Fee %	15.00%	15.00%
Total Cost Ratio TCR % p.a.	0.70%	0.83%
Buy Spread %*	0.25%	0.20%
Sell Spread %*	0.25%	0.20%

* This spread is the difference between the Fund's application price and withdrawal price and reflects transaction costs relating to the underlying assets.

Management Fee

The management fee includes GST and is net of any applicable Reduced Input Tax Credits (RITC).

Performance Fee

There is a performance fee charged as follows:

- **15%** of the amount by which the Fund's investment returns (**after** base management fees have been deducted) exceed the returns of the Benchmark (S&P/ASX 300 AREIT Accumulation Index).
- Including GST and the impact of RITC (Reduced Input Tax Credit).
- The fee is accrued daily and (if applicable) paid to the Manager half-yearly.
- The fee is adjusted for any prior accumulated negative performance fee. Underperformance in a previous performance period must be made up for before a performance fee is payable. This creates a permanent high-water mark.

SQM Research observes that:

- *The Fund management fee is 15 basis points lower than the peer group average.*
- *The ICR (or TCR) is 7 basis points lower than the peer group average.*
- *The performance fee accrues at any return above the benchmark (subject to the returns being positive).*
- *The performance fee, at 15%, is similar to the average of peers that charge a performance fee. Most of the peers do not charge a performance fee.*
- *The performance fee includes a permanent high-water mark.*

Risk/Return Data to 30 September 2023							
Total Return	1-Month	3-Month	6-Month	1-Year	3-Year	5-Year	Inception
Fund	-6.93	-0.62	4.14	15.64	3.07	.	10.01
Benchmark	-8.66	-3.04	0.02	11.94	4.89	.	12.06
Peer Average	-8.16	-3.10	-0.55	10.23	4.69	.	11.35
Alpha	1.73	2.42	4.13	3.70	-1.82	.	-2.05
Metrics	1-Year	3-Year	5-Year	Inception			
Tracking Error (% p.a.) - Fund	3.28	6.19	.	6.56			
Tracking Error (% p.a.) - Peer Average	2.60	2.78	.	3.10			
Information Ratio - Fund	1.13	-0.29	.	-0.31			
Information Ratio - Peer Average	-0.21	-0.13	.	-0.07			
Sharpe Ratio - Fund	0.66	0.08	.	0.44			
Sharpe Ratio - Peer Average	0.35	0.16	.	0.49			
Volatility - Fund (% p.a.)	18.36	20.64	.	20.09			
Volatility - Peer Average (% p.a.)	19.02	20.66	.	20.79			
Volatility - Benchmark (% p.a.)	20.09	21.46	.	21.67			
Beta based on stated Benchmark	0.90	0.92	.	0.88			

Distributions reinvested. Returns beyond one year are annualised. Return history starts Apr-2020

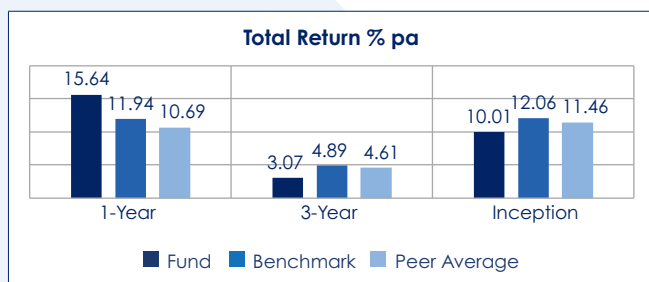
Benchmark: S&P/ASX 300 A-REIT TR

SQM Research notes that whilst the Fund's inception date was 11 March 2020, it was not fully invested until the end of March, and therefore the performance tables in this report will use returns starting April 2020.

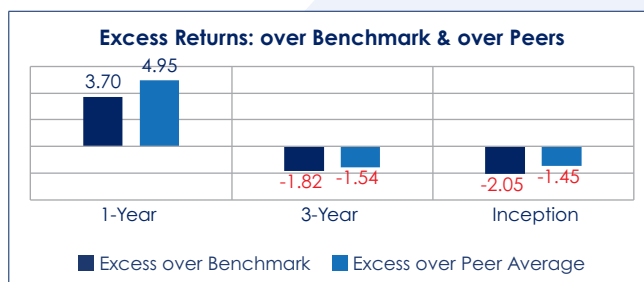
Quantitative Insight¹

Note: Unless otherwise stated, all return and risk data reported in this section are after-fees and for **periods ending Sep-2023**.

Returns



Excess Returns (Alpha)

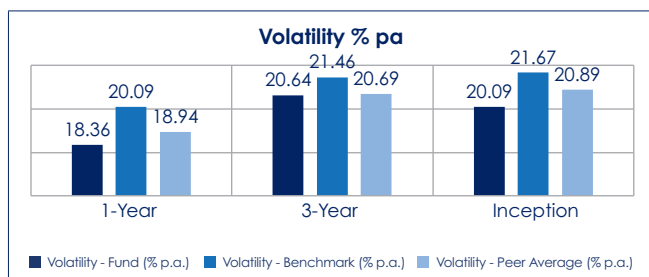


The Fund has displayed mixed performance across its history when compared with benchmark and peers with more recent performance achieving its objective.

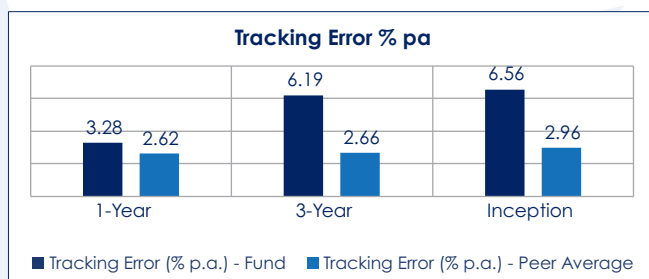
The **return outcomes** as described above are below the PDS objective and are below SQM's expectations for the Fund relative to its fee level and volatility. However, SQM Research is cognisant of the fact that these figures do not fully reflect the Fund's performance. That is based on the timing of the Fund's inception in the midst of the Covid-19 market dislocation in March 2020, and the subsequent defensive stance adopted by the Fund (by continuing to hold extra Cash). If the first month is included in the analysis, the Fund has outperformed the benchmark and the peers. Therefore, SQM Research has considered these factors as part of our rating process.

¹ **Note:** Sharpe and Information Ratios are not reliable comparison tools in periods where both the Fund and its peers/benchmark record a negative result

Risk



The Fund's **volatility** (annualised standard deviation of monthly returns) has tended to be around that of the benchmark and peers.



The Fund's **tracking error** (annualised standard deviation of monthly **excess** returns) has tended to be higher than peers due to its concentrated high conviction approach.

Drawdowns

Drawdown Summary			
Drawdown Size (peak-to-trough)			
	Fund	Bench	Peers
Average	-14.05%	-7.87%	-7.35%
Number	3	5	5
Smallest	-2.62%	-1.22%	-0.90%
Largest	-31.36%	-28.34%	-28.29%
Length of Drawdown (in months)			
	Fund	Bench	Peers
Average	3.5	3.3	6.4

Length of Drawdown = time from peak to trough and back to the previous peak level

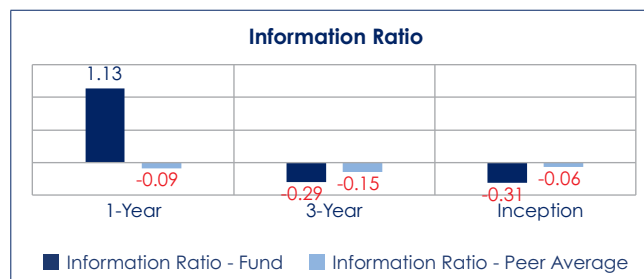
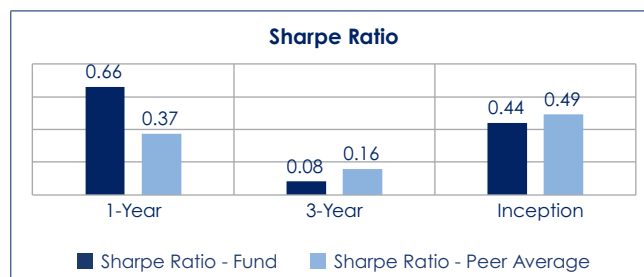
Average drawdowns have been worse than both the benchmark and the peer average.

Upside/Downside Capture

	Downside Capture		Upside Capture	
	3 years	Inception	3 years	Inception
Fund	98.0%	93.5%	92.5%	90.0%
Peer Average	94.5%	93.9%	94.4%	94.3%

for a cash benchmark, downside capture is not valid

Risk-Adjusted Returns



The Fund's risk-adjusted returns (as measured by Sharpe and Information ratios) have been marginally worse than the peer average since the fund's inception but have seen improvement in the last 12 months.

Correlation of Fund to Asset Classes

Market	3 years	Inception	Market Indexes
Aust Bonds	+49.2%	+47.4%	Bloomberg AusBond Composite 0+Y TR
Aust Equity	+79.6%	+79.3%	S&P/ASX 300 TR
Global Bonds	+58.3%	+58.3%	Bloomberg Global Aggregate Hdg AUD
Global Equity	+71.0%	+71.7%	MSCI World Ex Australia NR AUD

Correlation Key

Low	High	Description
0%	20%	low, weak
20%	40%	modest, moderate
40%	70%	significant, material
70%	90%	strong, high
90%	100%	substantial

Tail Risk

(The analysis in the table below looks at the **tail risk performance relationship of the Fund to the ASX300**, a practice that SQM has set as common across asset classes in Fund reviews. This approach recognises that for the large bulk of financial planner clients, their key traditional asset class **risk** regarding **size** and **volatility** is to Australian equities. Exploring that relationship is useful

regardless of the asset class of the Fund itself, as it is helpful to understand how a Fund has acted in times of Australian equity market stress in terms of softening or exaggerating the negative performance experienced at such times.)

The table below details the **largest negative monthly returns** for the ASX 300 **since the inception of the Fund**. This is compared to the Fund's performance over the same months.

Extreme Market Returns vs Fund Return Same Month

Index: S&P/ASX 300 TR From Apr-20 to Sep-23

Rank	Date	Market	Fund	Difference
1	Jun-22	-8.97%	-9.73%	-0.77%
2	Jan-22	-6.45%	-9.60%	-3.15%
3	Sep-22	-6.29%	-13.52%	-7.23%
4	Sep-20	-3.59%	+0.97%	+4.57%
5	Dec-22	-3.29%	-3.58%	-0.29%
6	Sep-23	-2.89%	-6.93%	-4.04%
7	May-22	-2.76%	-10.29%	-7.53%
8	Feb-23	-2.55%	-0.69%	+1.86%
9	May-23	-2.53%	+0.10%	+2.63%
10	Sep-21	-1.89%	-2.62%	-0.74%
Totals		-41.22%	-55.90%	-14.68%

			No. of Months
Correlation	+63.6%	Positive Return	2
Capture	+135.6%	Outperform	3

Tail Risk Observations:

The data in the table above indicate that the Fund displays **no defensive characteristics** in the face of extreme Australian equity tail risk.

Snail Trail

The snail trail chart and tables below show the combination of the Fund's rolling 1-year excess returns and volatility.

There are 31 observations in total.

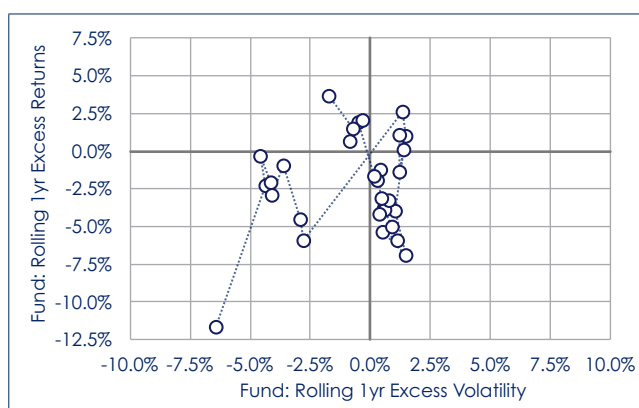
The two tables below display the distribution of these observations and their overall frequency across the risk/return quadrants.

Snail Trail Distribution

Frequency	Lo-Vol	Hi-Vol	Total
Hi-Return	5	4	9
Lo-Return	8	14	22
Total	13	18	31

31 rolling 1-year observations

% of Total	Lo-Vol	Hi-Vol	Total
Hi-Return	16.1%	12.9%	29.0%
Lo-Return	25.8%	45.2%	71.0%
Total	41.9%	58.1%	100.0%



In assessing a snail trail it is important to note the following:

Q1 upper left-hand quadrant - higher return than the Fund's market index with lower volatility (less risk). This is the optimal position.

Q2 upper right-hand quadrant - higher return than the Fund's market index with higher volatility (more risk). This can often be a desirable position depending on the attractiveness of the Sharpe ratios produced in this zone. It is important to note that in the case of inflation or cash-style benchmarks, the Q1 top left-hand quadrant is unachievable as it is not possible to deliver lower volatility than what is virtually zero for the benchmark. In such cases, the Q2 zone is the optimal position.

Q3 lower left-hand quadrant - lower return than the Fund's market index with lower volatility (less risk). Less than ideal, and Sharpe ratios can assist in assessing the risk/return trade-off in this zone.

Q4 lower right-hand quadrant - lower return than the Fund's market index with higher volatility (more risk). The least desirable outcome.

Consistency

The more "bunched together" the cluster of dots, the more consistent is the performance. A second indicator of consistency is the trail's nomadic nature. Trails that roam across multiple quadrants over time are indicating **low consistency** in the Fund's risk-return profile. The quadrant that **contains the bulk** of the Fund's snail trail is likely to be more representative of the Fund's risk/return characteristics and identity.

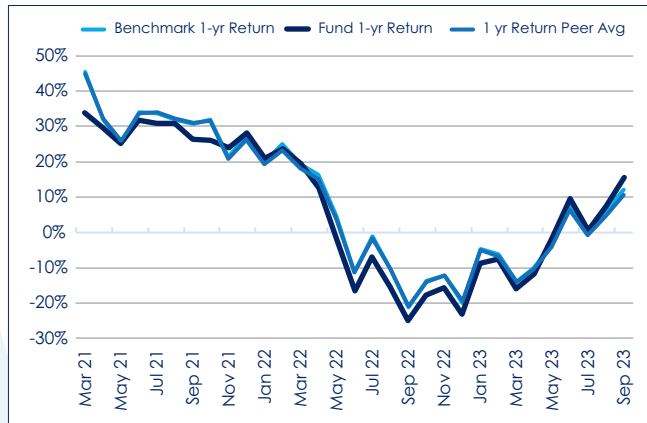
Annual Returns

Year	Fund	Benchmark	Peer Avg	vs. Bench	vs. Peers
2021	+28.03	+27.03	+26.10	+1.00	+1.93
2022	-23.13	-20.06	-19.46	-3.07	-3.67
Sep-23	+3.26	+0.34	-0.47	+2.92	+3.73

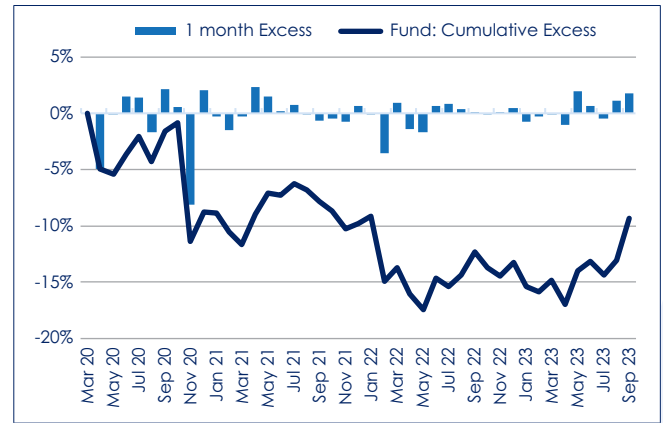
2023 data = 9 months ending Sep-23

Return and Risk

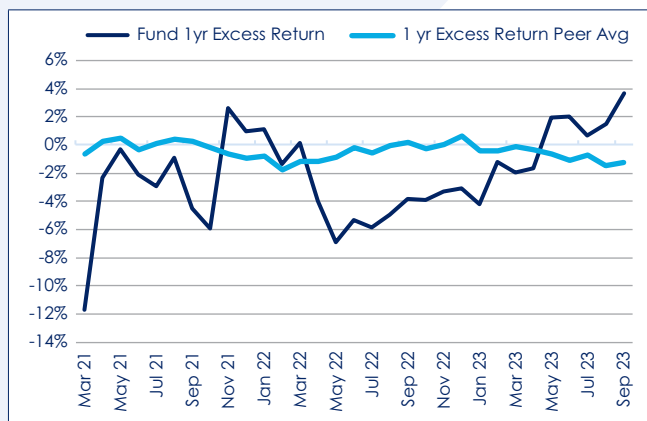
Rolling Returns



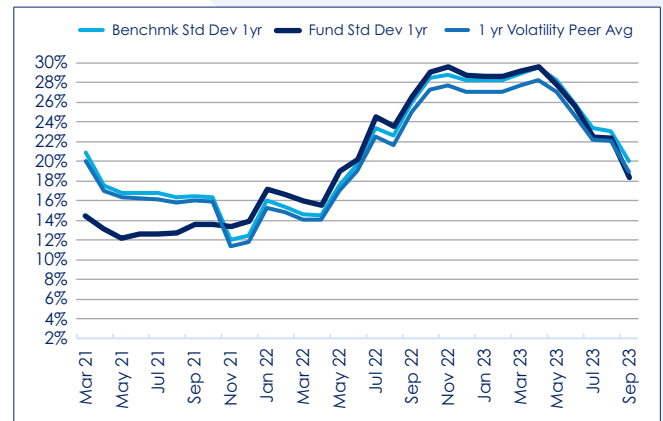
Cumulative Excess Returns



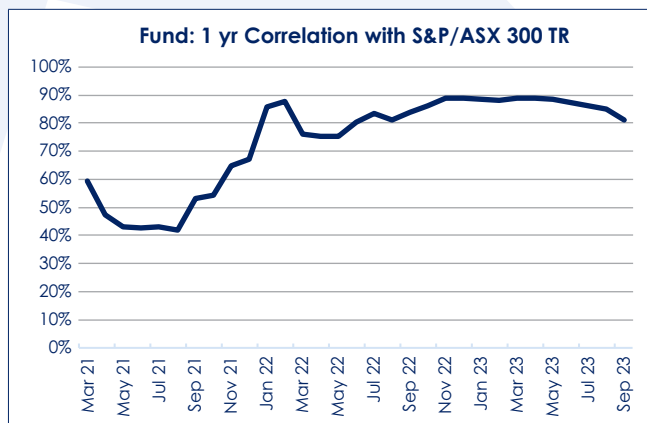
Rolling Excess Returns



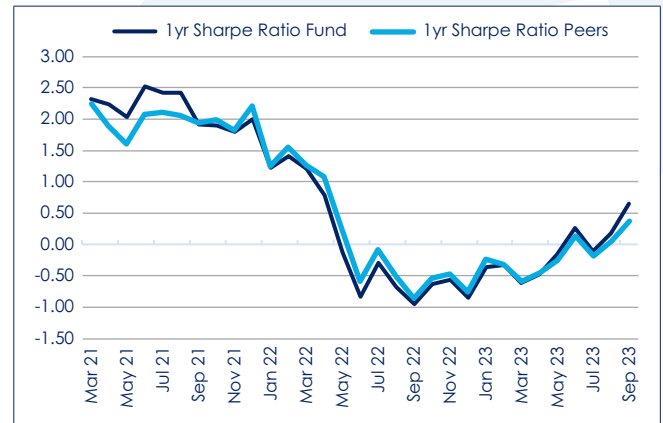
Rolling Volatility



Rolling Correlation

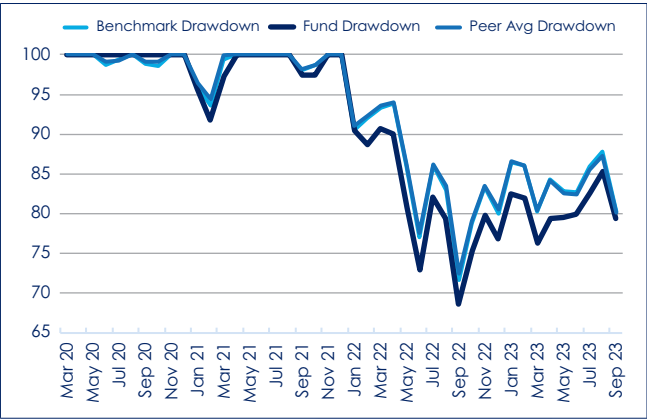


Rolling Sharpe Ratio



Return and Risk

Drawdowns



The table below outlines limits on the Fund's asset allocation and other risk parameters:

Fund Constraints and Risk Limits	Permitted Range or Limit
Maximum number of securities	20
Australian listed property securities	70%-100%
International listed property securities	10.00%
Cash and cash equivalents	20.00%
Minimum market capitalisation	A\$ 50 million
Maximum exposure to single security	20% or Index weight if >20%

Top 5 Holdings*

Ticker	Holding	Sector	Weight %	Country
GMG	Goodman Group	Real Estate	24.41	AUS
SGP	Stockland Corp Ltd	Real Estate	8.91	AUS
GPT	GPT Group	Real Estate	6.89	AUS
SCG	Scentre Group	Real Estate	6.35	AUS
ARF	Arena REIT	Real Estate	5.54	AUS

* As reported to SQM on the return of the RFI – holdings will change over time.

Drawdown

A drawdown tracks the path of the Fund's accumulated NAV (with dividends reinvested). It is measured over the period of a peak-to-trough decline and the subsequent recovery back to that previous peak level. The total return over that entire period is, of course, zero. The metric of interest, the drawdown itself, is quoted as the percentage change between the peak and the trough over that period. Funds typically have multiple drawdowns of varying size and length over their lifetime. The table above shows how many drawdowns have occurred and their average peak-to-trough size.

Alpha

SQM defines **Alpha** as the excess return compared to the Benchmark and is calculated as

$$\text{Alpha} = \text{Fund Return} - \text{Benchmark Return}$$

A General Note on Distributions for Managed Funds

The Responsible Entity of a Managed Fund will provide for a regular schedule of distributions, such as monthly/quarterly/semi-annual or annual. This is subject to the Fund having a sufficient distributable income. The official total distributable income available to pay to investors is determined for the period of that Fund's financial year. By distributing the net taxable income of the Fund to investors each year, a Fund itself should not be liable for tax on its net earnings.

If a Fund makes distributions more frequently than once over the financial year, those distributions will be based on estimates of the distributable income for that distribution period. The final total amount of distributable income available for passing on to investors can only be calculated after the close of the financial year, based on the Fund's taxable income for that year.

If the total distributions a Fund pays out exceed total taxable income for that particular financial year, the excess amount may be treated as a return of capital rather than income. This will possibly have tax implications for the investor.

Due to the considerations outlined above, there may be periods in which no distributions are made, or a Fund may make additional distributions.

A Fund's ability to distribute income is determined by the performance of the Fund and general market conditions. Accordingly, there is no guarantee that a Fund will make a distribution in any distribution period.

Total Cost Ratio (TCR)

Managed Investment Schemes: The TCR for Managed Investment Schemes, Exchange Traded Products, and Investment Bond funds is an addition of the Investment Management Fees and Costs (including admin fees), Performance Fee Costs, and the impact of dollar-based fees.

Superannuation funds: The TCR for Superannuation and Pension funds is an addition of the Investment Management Fees and Costs (including admin fees), Performance Fee Costs, Administration Fees and Costs, the impact of dollar-based fees and a deduction of Super OTC Derivative Costs.

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