

Pengana High Conviction Property Securities Fund

Rating issued on 03 Jul 2024 | APIR: PCL8246AU

Investment objective

To outperform the S&P/ASX 300 A-REIT Accumulation Index (after fees) over rolling 3-year periods.

Manager	Pengana Capital Group
Distributor	Pengana Capital Group
Sector	Property \ Australian Securities
Investment Style	Active
RI Classification	Integrated
Absolute Risk	High
Relative Risk	Active - Benchmark Unaware
Investment Timeframe	5-6 Years
Benchmark	S&P/ASX 300 AREIT
Min Investment Amount	\$10,000
Redemption Frequency	Daily
Income Distribution	Quarterly
Fund Size (31 May 2024)	\$19.86M
Management Cost	0.70% p.a. Incl. GST
Performance Fee	Performance fee of 15% (including GST net of RITC) of any return of the Class greater than the return of the Benchmark
Buy / Sell Spread	0.25% / 0.25%
Inception Date	11 Mar 2020

Fund facts

- Concentrated, benchmark unaware strategy
- Value-orientated, high conviction manager
- Significant ESG focus to investment process

Viewpoint

Managed by Sydney-based Pengana Capital Limited (Pengana), the Fund offers investors a high conviction exposure to Australian real estate investment trusts (A-REITs) including small-cap and non-benchmark securities. Zenith has a favourable view of the investment capability, and with greater collective tenure of the investment team and growth in funds under management (FUM), our conviction is expected to mature.

Pengana is an Australian funds management boutique founded in 2003. Pengana offers a diversified range of equity-based strategies totaling \$A 3.2 billion in funds under management, as at 31 May 2024.

Amy Pham is the lead Portfolio Manager for the Fund and is supported by a team of two including, Investment Specialist, Jade Ong and Investment Analyst, Sam Craig. Pengana Chief Investment Officer, Nick Griffiths, oversees the team from a business perspective and is included in the Fund's Investment Committee (IC) along with Pham, Ong and Craig. The team employs a flat structure with all members responsible for idea generation, company analysis and portfolio management, although Pham has ultimate decision making responsibility.

Pengana's investible universe consists of around 30 index A-REITs and 20 non-index stocks, on which the team maintains bottom-up research coverage. The non-index stock focus seeks to exploit alternative structural and secular trends, such as urbanisation, ecommerce, population demographics via property related securities.

The investment process attempts to identify mispriced securities through a high conviction and in-depth environmental, social and governance (ESG) focused approach.

The concentrated portfolio enables investment in the best positioned assets and sectors at any point in time. Pengana adopts a bottom-up investment approach with thematic overlays to benefit from cyclical and structural changes whilst focusing on analysing the quality and potential cashflows for each security. Pengana expects 85% of outperformance to be generated from bottom-up stock selection and 15% from top-down thematic and behavioural analysis. Zenith highlights a greater emphasis on ESG factors in terms of their integration into the assessment of security value rankings relative to peer managers.

Pengana employs a benchmark unaware approach to portfolio construction, with the portfolio skewed towards securities with the most attractive prospective financial and ESG based valuations. Portfolio positions are based on the team's level of conviction, relative risk/reward profiles and market liquidity with the portfolio biased towards good value and large market capitalisation securities. The final portfolio is expected to be highly concentrated, with a maximum of 20 securities.

Notwithstanding the relatively recent inception of the team, Zenith has a favourable view of Pengana's high conviction approach. The ESG emphasis within the investment process and non-index positioning provides a differentiated proposition to peers.



Fund analysis

Fund characteristics

Constraint targets	Value
Security Numbers	Max: 20
Australian exposure	Min:70%
International exposure	Max:10%
Cash	Max: 20%
Individual security (where index weight <20%)	Max: 20%
Individual security (where index weight >20%)	Max: index weight
Non-index security position	Max: 5%

Investment objective and philosophy

The Fund’s investment objective is to outperform the S&P/ASX 300 A-REIT Accumulation Index over rolling 3-year periods after fees.

Pengana believes each security has an underlying or intrinsic value and that securities become mispriced at times relative to their value and to each other. Such mispricing is due to irrational market behaviour driven by investor sentiment towards certain types of securities or sub sectors of the property market. 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 investment process attempts to identify mispriced securities through a high conviction and ESG focused approach. The concentrated portfolio enables investment in the best positioned assets and sectors at any point in time. Pengana adopts a bottom-up investment approach with thematic overlays to benefit from cyclical and structural changes whilst focusing on analysing the quality and potential cashflows for each security.

Pengana believes that responsible investing is important to generate long term sustainable returns. Incorporating ESG factors along-side financial measures provides a more complete view of the risk/return characteristics of property securities. Zenith highlights a greater emphasis on ESG factors in terms of their integration into the assessment of security value rankings than peer managers.

Pengana expects 85% of outperformance to be generated from bottom-up stock selection and 15% from top-down thematic and behavioural analysis.

Portfolio applications

A-REITs offer investors consistent income with some capital growth over the longer term. However, the total return expectations have historically been associated with higher volatility. Therefore, it is recommended that investors adopt a longer time frame when investing in A-REITs. As the A-REIT index is highly concentrated, Zenith recommends investors blend both domestic and Global-REIT exposures to increase diversification across securities, sub-sectors, regions and economic drivers.

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. It may also invest in the shares of property developers and other companies associated with the property sector.

The Fund offers investors a concentrated, but diversified, benchmark unaware exposure to Australian listed property securities, including small cap securities.

Portfolio turnover is expected to be between 40% and 50% p.a., which Zenith considers to be relatively low on an absolute basis.

The Fund’s returns are expected to come in the form of income and capital appreciation. Given the expected level of turnover, realised capital gains may be eligible for the capital gains discount.

Zenith believes the Fund may potentially be held as a standalone A-REIT exposure or as part of an investor's well-diversified portfolio.

Fund responsible investment attributes

Key Information	Description
Zenith RI classification*	Integrated
Has Responsible Investment Policy	Yes
Negative screens**	Full/Partial
Alcohol	Partial
Fossil fuels	Partial
Gaming	Partial
Tobacco	Partial
Human rights abuse	Partial
Environmental Degradation	Partial
PRI Status	
PRI Signatory	Yes

*Zenith RI Classification scale:

- Traditional
- Aware
- Integrated
- Thematic
- Impact

**Data has been supplied by third parties. While such information is believed to be accurate, we do not accept responsibility for any inaccuracy in such data.



Absolute performance

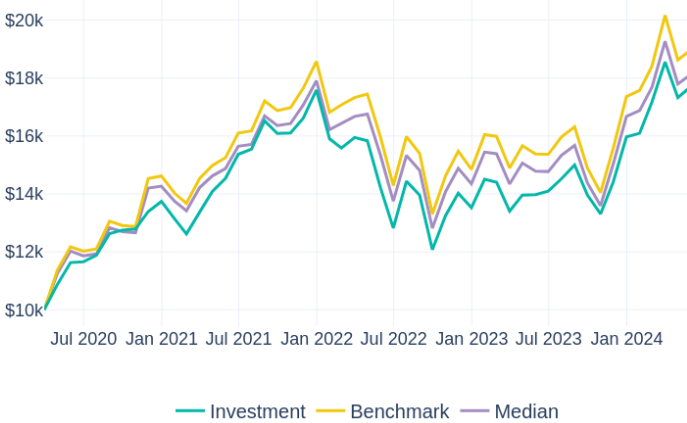
Performance as at 31 May 2024

Monthly performance history (% , net of fees)

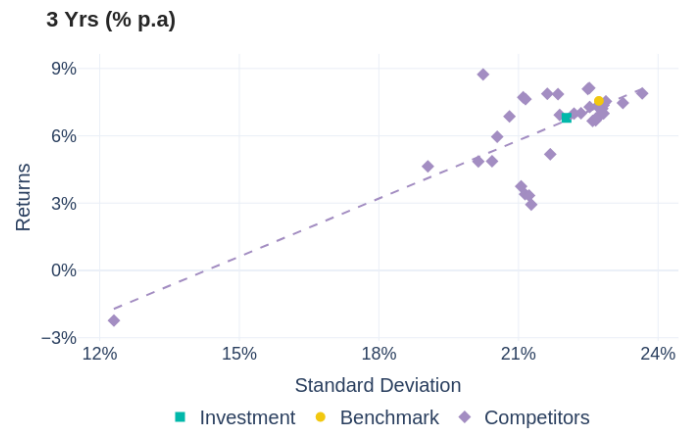
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	BM YTD*
2024	0.78%	6.69%	8.07%	-6.64%	2.25%								10.92%	9.33%
2023	7.27%	-0.69%	-6.93%	4.13%	0.10%	0.87%	3.03%	3.29%	-6.93%	-4.69%	8.33%	10.77%	18.10%	16.90%
2022	-9.60%	-1.98%	2.34%	-0.72%	-10.29%	-9.75%	12.62%	-3.31%	-13.52%	9.72%	5.86%	-3.58%	-23.13%	-20.05%
2021	-4.36%	-3.97%	5.96%	5.37%	3.22%	5.69%	1.15%	6.28%	-2.62%	0.11%	3.17%	5.87%	28.03%	27.04%
2020				8.76%	6.93%	0.23%	1.98%	6.24%	0.97%	0.29%	4.72%	2.58%	37.39%	46.18%

*S&P/ASX 300 AREIT

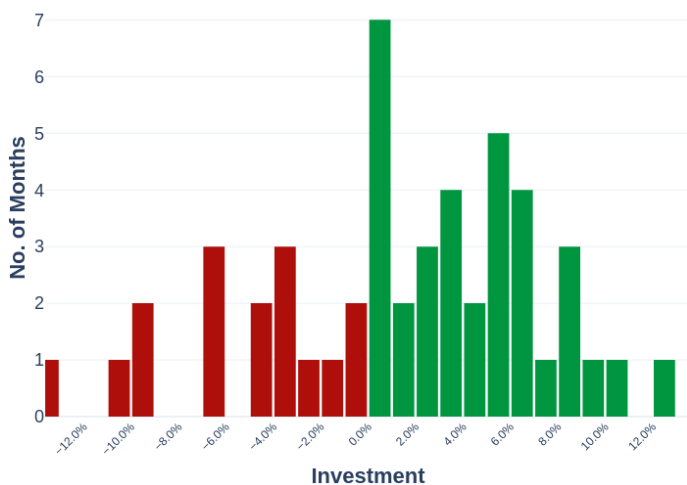
Growth of \$10,000



Risk / return



Monthly histogram



Minimum and maximum returns (% p.a.)





Absolute performance analysis

Instrument	6 Mths	1 Yr	2 Yrs	3 Yrs	Inception
Investment	22.87%	26.75%	11.66%	6.80%	14.71%
Income	1.81%	4.79%	6.72%	5.87%	4.91%
Growth	21.06%	21.96%	4.94%	0.93%	9.80%
Benchmark	21.79%	23.39%	9.07%	7.56%	16.62%
Median	20.53%	22.56%	8.75%	6.80%	15.34%
Cash	2.16%	4.28%	3.46%	2.31%	1.69%

Ranking within sector (p.a.)

Ranking within Sector	1 Yr	3 Yrs	Inception
Fund Ranking	3 / 34	22 / 34	27 / 34
Quartile	1st	3rd	4th

Absolute risk

Instrument	1 Yr	2 Yrs	3 Yrs	Inception
Standard Deviation (% p.a.)				
Investment	19.50%	23.58%	22.03%	20.18%
Benchmark	22.53%	25.14%	22.73%	21.95%
Median	21.74%	24.49%	22.18%	21.24%
Downside Deviation (% p.a.)				
Investment	10.68%	15.24%	14.98%	13.04%
Benchmark	12.89%	16.40%	15.32%	13.23%
Median	12.50%	16.08%	15.09%	13.00%

Absolute risk/return ratios

Instrument	1 Yr	2 Yrs	3 Yrs	Inception
Sharpe Ratio (p.a.)				
Investment	1.15	0.35	0.20	0.65
Benchmark	0.85	0.22	0.23	0.68
Median	0.84	0.22	0.20	0.64
Sortino Ratio (p.a.)				
Investment	2.10	0.54	0.30	1.00
Benchmark	1.48	0.34	0.34	1.13
Median	1.46	0.33	0.30	1.05

Investors should note that for consistency purposes, Zenith benchmarks all 'Property - Australian Securities' funds against the S&P/ASX 300 A-REIT Index. All performance, consistency and risk/return data is referenced to the Zenith assigned benchmark.

The following commentary is current as at 31 May 2024.

The Fund aims to deliver a total return (after fees) in excess of the S&P/ASX 300 A-REIT Accumulation Index over a rolling three-year period.

Noting the March 2020 inception and limited performance history, the Fund has not achieved its investment objective on a since inception basis, but has outperformed the benchmark and the median manager over the short-term.

The Fund's volatility, as measured by Standard Deviation, has been lower than the benchmark and Zenith's median manager.



Relative performance

Excess returns

Statistic	6 Mths	1 Yr	2 Yrs	3 Yrs	Inception
Excess Return	1.08%	3.36%	2.59%	-0.76%	-1.91%
Monthly Excess (All Mkts)	50.00%	58.33%	58.33%	50.00%	50.00%
Monthly Excess (Up Mkts)	40.00%	37.50%	38.46%	40.91%	41.94%
Monthly Excess (Down Mkts)	100.00%	100.00%	81.82%	64.29%	63.16%

Capture ratios (% p.a.)

Statistic	6 Mths	1 Yr	2 Yrs	3 Yrs	Inception
Downside Capture	86.86%	78.73%	88.04%	94.08%	92.27%
Upside Capture	99.26%	94.60%	95.81%	93.02%	90.73%

Tracking error (% p.a.)

Instrument	1 Yr	2 Yrs	3 Yrs	Inception
Investment	4.58%	3.71%	4.02%	6.26%
Median	0.91%	0.86%	0.76%	0.95%

Information ratio

Instrument	1 Yr	2 Yrs	3 Yrs	Inception
Investment	0.73	0.70	-0.19	-0.31
Median	-0.91	-0.38	-0.99	-1.34

Beta statistics

Statistic	1 Yr	2 Yrs	3 Yrs	Inception
Beta	0.85	0.93	0.95	0.88
R-Squared	0.97	0.98	0.97	0.92
Correlation	0.99	0.99	0.98	0.96

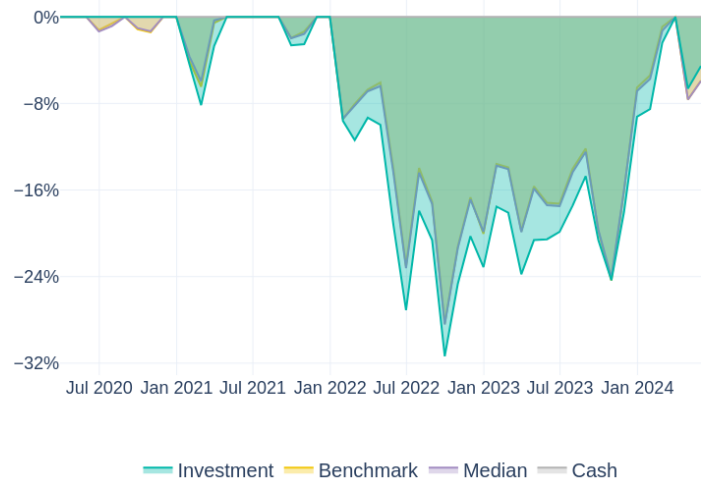
The following commentary is current as at 31 May 2024.

Zenith seeks to identify funds that can achieve an outperformance ratio above 50% of months in all market conditions as we believe this is representative of manager skill.

Noting the March 2020 inception and limited performance history, the Fund has achieved this outperformance ratio on a since inception basis. Zenith notes the Fund has demonstrated materially stronger performance in downward trending markets.

Drawdown analysis (since inception)

Drawdown analysis assesses the relative riskiness of a Fund versus the benchmark, in reference to capital preservation. The maximum Drawdown is recorded as the percentage decline in the value of a portfolio from peak to trough (before a new peak is achieved). All Drawdown analysis is calculated commencing from the inception date of the Fund in question, and Drawdown analysis for the Fund and benchmark(s) are calculated independently. That is, the largest drawdown for the Fund and benchmark(s) will not always refer to the same time period.



The following commentary is current as at 31 May 2024.

The Fund's drawdown profile has been generally greater than the benchmark since inception.



Fund commentary

Fund risks

Zenith has identified the following key risks of the Fund. Although Zenith believes the risks noted are all significant, we have listed them in order of importance. In addition, we have not intended to highlight all possible risks.

Key person risk: As with most boutique fund managers, key person risk is considered high. Zenith's rating is predicated on the ongoing involvement of Pham and, should this change, it would warrant a reassessment.

Longevity risk: Funds that fail to grow FUM to a scalable level could be wound up and terminated by the Responsible Entity. The risks associated with a fund wind up are principally that of timing, performance slippage, and the realisation of capital gains which may not be suitable.

As at 31 May 2024, FUM in the Fund remains low at approximately \$A 19.9 million.

Performance risk: Although the benchmark unaware, high conviction approach is an appealing feature of the Fund, it could lead to materially different performance from that of the Fund's assigned benchmark and peers. This may result in underperformance over certain periods.

Relative performance risk: The Fund is concentrated, holding a maximum of 20 positions. Zenith believes that a concentrated portfolio has greater exposure to stock-specific risk than more diversified strategies and, as such, investors should be cognisant that the Fund may significantly deviate from the benchmark and/or peers.

Security/asset selection

The investment universe consists of listed property securities on the ASX including A-REITs, fund managers and property developers. The Fund may also invest in announced IPOs or unlisted securities which intend to list. Securities with a market cap of below \$A 50 million are typically screened out. Pengana also has the ability to invest in G-REITs and global property developers, although to date, have not elected to do so.

Pengana's investible universe consists of around 30 index REITs and 20 non-index stocks, on which the team maintains bottom-up research. The non-index stock focus seeks to exploit alternative structural and secular trends, such as urbanisation (build-to-rent, manufactured housing, self-storage, convenience retail), ecommerce (data centres, logistics), population demographics (retirement living, healthcare, childcare) via property related securities.

Pengana employs a fundamental approach to securities selection, based on internally derived valuations which includes an in-depth ESG assessment.

Detailed quantitative and qualitative evaluation of all 50 stocks is undertaken to provide a valuation ranking. Quantitative financial assessments and forecasts have a 70% valuation ranking weight and are based on:

- Dividend yield
- Earnings growth
- Price to net asset value
- Weighted average lease expiry
- Gearing

Qualitative assessments have a 30% valuation ranking weight and are based on:

- Quality of management
- Quality and diversification of assets
- ESG factors

Pengana believes ESG issues vary amongst asset type, life cycle phase, corporate structure and other company specific characteristics. The approach is qualitative with tailored company engagement through a proprietary questionnaire and follow up company meetings to understand the relevant issues specific to a particular business. All ESG research is conducted internally with findings incorporated directly into the valuation model with meaningful impact on a company's rank relative to peers.

Environmental performance and sustainability at the property portfolio level are considered through NABERS ratings that incorporate energy efficiency, water usage, waste management and indoor environment quality of a building. Social factors examine how an organization manages relationships with employees, suppliers, customers, and the communities where it operates. Governance assessments deal with factors such as a company's leadership, executive pay, audits, internal controls, and shareholder rights.

Zenith regards Pengana's security selection process as appropriate and consistent with many of its peers, but highlights a greater emphasis on ESG factors in terms of their integration into the assessment of security value rankings.

Responsible investment approach

Pengana has a publicly available Responsible Investment Policy that was last updated in July 2023. The manager has been a signatory to the Principles for Responsible Investment (PRI) since 2010 and is a member of the Responsible Investment Association Australasia (RIAA).

The investment team incorporates ESG factors into its fundamental research process, which are designed to evaluate financial impacts and manage risk. This means the valuation process and ranking models take into account both financial and ESG factors. Whilst G scores are more applicable to corporate behaviour, E scores are specifically, marked down for material exposure to fossil fuels and/or environmental degradation, whilst S scores are marked down for material exposures to tobacco, gambling, alcohol, labour or human rights.



Pengana has a centralised ESG committee that manages ESG functions and initiatives across all funds. The Committee, comprising two Executive Directors and the Senior Risk and Performance Manager, meets monthly to review and manage the following functions:

- Incorporation of ESG principles in all Fund's core investment philosophies
- Development and maintenance of the Fund's RI policies and practices
- Monitoring of adherence with RI and engagement policies
- External RI reporting and specific disclosure requirements
- Analysis of ESG risk exposures, carbon emissions, controversies and product involvement
- Application and development of ethical screens
- Co-ordination and reporting on Fund voting and engagement activities

Using a combination of Sustainalytics and Bloomberg data, a summary pack is produced and analysed monthly and is shared with the investment teams. The pack includes ESG risks, carbon exposure, product involvement and controversies.

Zenith views Pengana's efforts in ESG favourably, noting the greater incorporation of ESG principles in the Fund's core investment process relative to some peers and the organisation's commitment to external RI reporting and engagement practices.

Portfolio construction

Pengana employs a benchmark unaware approach to portfolio construction, with the portfolio skewed towards securities with the most attractive prospective financial and ESG based valuations. Whilst the team operates on a consensus basis, Pham has final responsibility for stock selection and portfolio construction.

Portfolio construction commences with the identification of qualitative themes aimed at selecting the core sub-sectors with the best two to three-year growth horizon, and any new growth sectors driven by secular trends such as demographics, consumer behavior, technology or climate change.

Based on the internal security valuation process, all researched securities are ranked according to their ability to generate sustainable free cash flow and discount to valuation. Stock weightings within the portfolio are not predetermined by a particular process or algorithm, but based on the team's level of conviction, relative risk/reward profiles and market liquidity with the portfolio biased towards good value and large market capitalisation securities.

Position sizing constraints are limited to the maximum single security exposure for index stocks being 20% (or index weight where a security has an index weighting of greater than 20%), and for non-index stocks being 2%-5%.

The Fund has the capacity to invest a maximum of 10% in property related securities listed internationally, but research of such securities is limited. Zenith notes that as of 31 May 2024, the Fund has yet to invest in global exposures.

The final portfolio is expected to be highly concentrated, with a maximum of 20 securities held.

Pengana does not target a specific level of portfolio turnover, although the investment process has resulted in a relatively low level of between 40% and 50% p.a. to date.

In addition to considering the IC's views on preferred sub-sectors and emerging thematic, the team also review the portfolio for unintended biases across sectors, market cap and liquidity, all of which are assessed on absolute and benchmark relative terms to avoid over concentration of single factor risk.

The portfolio is constantly subjected to review against the team's investment philosophy and process with buy/sell decisions tested against the relativities of the 50-stock investable universe.

Overall, Zenith considers the portfolio construction process to be sound, with the ranking model and overall team conviction guiding positioning. The high conviction approach, ESG emphasis and non-index positioning differentiates the product from peers.

Risk management

Pengana has a number of soft limits in place to ensure the Fund maintains its focus on large and mid-cap companies, albeit allowing for a limited number of non-index companies to enter the portfolio. Zenith believes risk management is implicitly considered throughout the process, with considerable effort placed at understanding stock specific financial and ESG risks and the impact this can have on overall portfolio outcomes.

At the security level, the investment team consider sustainability of earnings, capital structure, corporate governance, liquidity, and price relative to peers. The securities that make it through the rigorous screening process are constantly being re-evaluated and monitored, adding a further layer of risk management.

Risk reports are reviewed daily by the CIO or Senior member of the Risk and Performance team and monthly by a Risk Committee which includes the CIO, CFO and COO. The Committee also reviews the key drivers of the Fund's performance, significant risk exposures, and any other risk related exposures or activities that may impact the Fund's operations or performance.

The automated process, which incorporates all hard and soft mandate limits as well as other points of interest, is run, reviewed and archived daily. The process is reviewed regularly, and additional functionality built as required to better reflect the application of each mandate rule and assist in the review process. The risk monitoring process is performed through a combination of an internal database, Microsoft Excel and Bloomberg PORT. A regular audit of the mandate rules is done to capture any changes.

Overall, Zenith is comfortable with the level of risk management applied to the Fund.



Investment fees

	Fund	Sector Average
Total Fees and Costs (RG 97)	0.85% p.a.	0.64% p.a.
Management Fees and Costs	0.70% p.a.	0.63% p.a.
Transaction Costs	0.10% p.a.	0.01% p.a.
Performance fees as at 30 Jun 2023	0.05%	0.00%
Performance fees description	Performance fee of 15% (including GST net of RITC) of any return of the Class greater than the return of the Benchmark	
Management Cost	0.70% p.a.	0.75% p.a.
Buy / Sell spread	0.25% / 0.25%	0.19% / 0.16%

All fees and costs are inclusive of GST unless indicated otherwise. The Performance Fee shown is the performance fee disclosed in the PDS. It is calculated by taking the average performance fees charged over the last five financial years (or less if the investment or performance fee mechanism has not been in place for five financial years).

The sector average management cost (in the table above) is based on the average management cost of all flagship 'Property – Australian Securities' funds surveyed by Zenith. The list of funds incorporates active and index strategies across managed funds and exchange-traded funds (ETFs).

Overall, Zenith believes the Fund's fee structure to be expensive, relative to peers. In addition, we believe that investors have not been sufficiently compensated by way of risk adjusted performance given the fees paid over the past three years (ending 30 June 2023).

The Fund includes a performance fee regime whereby 15% of returns above the benchmark are payable to Pengana, calculated on a six-monthly basis. The performance fee is not payable unless the return of the Fund is positive for that half year period. If no performance fee is payable to Pengana at the end of a half year period, then the accrued performance fee, positive or negative, will be carried forward into the next half year period and form part of the performance fee for that half year. This means that negative performance by the Funds must be made up before a performance fee is payable.

(The fees mentioned in this report reflect the flagship version only. Fees may differ when the product is accessed through an alternate investment vehicle such as a platform).

About the fund manager

Organisation

Pengana Capital Group Limited (Pengana) is an Australian funds management boutique founded in 2003. Pengana aims to support experienced fund managers with long track records, providing staff and support whilst leaving the investment staff entirely responsible for the performance of the funds that they manage.

In June 2017, Pengana merged with Hunter Hall International Limited (ASX: HHL). As a result, HHL was renamed Pengana Capital Group Limited (ASX: PCG). The combined entity offers a diversified range of equity-based strategies totaling \$A 3.2 billion in funds under management (FUM), as at 31 May 2024.

PCG is majority-owned by Pengana staff and Washington H. Soul Pattinson (ASX: SOL). SOL has a 36.64% shareholding in PCG after holding a material interest in Hunter Hall prior to the merger and subsequently purchasing NAB Asset Management's stake in Pengana in March 2017. Pengana staff and directors retain a 40% equity ownership stake, which Zenith views positively.

As at 31 May 2024, Pengana managed approximately \$A 19.9 million in the Fund.

Investment personnel

Name	Title	Industry Experience (yrs)	Tenure (yrs)	Location
Amy Pham	Fund Manager	28	4	Sydney, Australia
Jade Ong	Investment Specialist	20	4	Sydney, Australia
Sam Craig	Investment Analyst	8	2	Sydney, Australia

Amy Pham is the lead Portfolio Manager for the Fund and is supported by a team of two including, Investment Specialist, Jade Ong and Investment Analyst, Sam Craig. Pengana Chief Investment Officer, Nick Griffiths, oversees the team from a business perspective and is included in the Fund's IC along with Pham, Ong and Craig. The team employs a flat structure with all members responsible for idea generation, company analysis and portfolio management, although Pham has ultimate decision making responsibility.

The IC, which meets formally on a monthly basis and more frequently if necessary, provide relevant input from internal and external resources to discuss the macro-economic environment, the real estate market, individual securities and to determine portfolio allocations.

Pham has over 25 years of property funds management experience. Prior to joining Pengana she worked at Charter Hall/Folkestone for 6 years, managing a high conviction A-REIT strategy. Pham has held several senior positions including head of property securities at IAG and portfolio manager at Deutsche Asset Management and Perpetual Funds Management. Zenith has a favourable view of Pham's portfolio management and team leadership capabilities, highlighting the strong team culture fostered to date, with the team aligned in terms of investment background and philosophy.

Ong has over 20 years of property funds management and corporate finance experience. Previously Jade was a senior member of Macquarie Capital's real estate corporate advisory team in London and Sydney for 9 years. Prior to Macquarie, she was an assistant portfolio manager of IAG's property securities fund, working alongside Pham.

Craig has over 8 years of property and finance experience and prior to joining Pengana worked in the JLL Capital Research team and the Research team at Charter Hall and was responsible



for cross-sector quantitative and thematic research, transaction and funds management support.

Zenith has a positive view of the Pengana team, noting Pham and Ong's prior working relationship and experience across a number of market cycles. Craig's property level experience at both JLL and Charter Hall is also considered positively, providing granularity to property specific valuations. In addition, Griffiths provides an additional meaningful perspective in his IC role, given over 25 years' experience in actuarial and investment consulting, manager research and risk management.

Team remuneration consists of market salary and bonus. In addition, a profit share is granted at the discretion of Pham to permanent employees after three years of service and vests over a six-year period.

The investment team is also supported in distribution, marketing and other business administration by the broader Pengana business.

Notwithstanding the relatively recent inception of the team, Zenith has a favourable view of their capabilities. With greater collective tenure, our conviction is expected to mature.

About the sector

Sector characteristics

The Zenith 'Property – Australian Securities' sector consists of all long-only funds investing in the listed Australian property market. The sector incorporates active and index strategies across managed funds and exchange-traded funds (ETFs).

Zenith benchmarks all funds in the sector against the S&P/ASX 300 A-REIT Index, unless otherwise specified. The index is commonly employed by funds within this sector. The index is market-capitalisation weighted, resulting in companies with the largest market capitalisations receiving the heaviest weighting.

As at 30 April 2024, the listed Australian property market, as represented by the S&P/ASX 300 A-REIT Index, consists of 33 securities and is highly concentrated. In terms of constituents, the top 10 securities, by market capitalisation, represent approximately 83% of the index. The largest constituent, Goodman Group, represents approximately 36.5% of the index.

Typically, listed Australian property securities can be placed into the following categories:

- Industrial – investment in warehouses, factories, and industrial parks
- Office – investment in large to medium-scale office buildings generally in and around major cities
- Retail – investment in shopping centres
- Diversified – investment in a mixture of industrial, office and retail
- Other – hotels, cinemas, healthcare, childcare, retirement and storage

Given the rental income focus of the listed Australian property securities, funds in the sector are expected to display greater distribution consistency than the broader equities market. Despite this, it should be noted that several key securities in the index derive material income from activities other than rents, such as property development and funds management. As such, these securities can exhibit higher income volatility.

Sector risks

Funds within the Zenith 'Property – Australian Securities' sector are exposed to the following broad risks:

Market risk: As is the case with all listed securities, the biggest risk to performance is a sustained downturn in the domestic share market. This risk can be significantly reduced by investors adhering to the Fund's prescribed investment timeframe.

Specific security risk: This is the risk associated with an individual security. The price of shares in a company may be affected by unexpected changes in that company's operations such as changes in management or the loss of a significant tenant.

Concentration risk: At a sector level, investors should be aware that the S&P/ASX 300 A-REIT Index is highly concentrated. For example, the top 10 holdings will typically represent over 80% of the index, and historically the largest sector exposures in the index are retail and office.

Liquidity risk: This is the risk that a security or asset cannot be traded quickly enough in the market to prevent loss (or make the necessary profit). When trading volumes are low, sellers can significantly impact the price of a security when attempting to quickly exit a material position.

Property risk: There are a number of factors that may affect the real estate sector, which include the cyclical nature of values, overbuilding and increased competition, property taxes and operating expenses, demographic trends and variations in rental income, changes in the appeal of properties to tenants, the level of gearing in the property market, and other real estate capital market influence.

Administration and operations

Responsible Entity	Pengana Capital Limited
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Zenith rating

Report certification

Date of issue: 03 Jul 2024

Role	Analyst	Title
Analyst	Bonnie Corbett	Senior Investment Analyst
Sector Lead	Bonnie Corbett	Senior Investment Analyst
Authoriser	Bronwen Moncrieff	Head of Research

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Rating history

As At	Rating
03 Jul 2024	Approved
17 May 2023	Not Rated - Screened Out
03 Feb 2022	Not Rated - Screened Out
17 May 2021	Not Rated - Screened Out
26 Aug 2020	Not Rated - Screened Out

Last 5 years only displayed. Longer histories available on request.

In March 2021, Zenith implemented a new ratings methodology for products classified as Traditional Index. Any rating issued from this date forward for Traditional Index products only reflect this change in methodology, with the relevant Traditional Index ratings being Index Approved, Index Recommended and Index Highly Recommended. Ratings issued for Traditional Index products prior to March 2021 are retained for historical purposes in line with our regulatory requirements and were issued in line with Zenith's Fund Research Methodology. Further information in relation to Zenith's Traditional Index Research Methodology and Traditional Index Ratings can be found on the Zenith website.



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