SQM RESEARCH

Pengana High Conviction Property Securities Fund

This report has been prepared for financial advisers and wholesale clients only

Favourable

October 2024

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: 21 October 2024

Star Rating**	Description	Definition	
4½ stars and above	*Outstanding*	***Highly suitable for inclusion on APLs*** *SQM Research believes the Fund has substantial potential to outperform over the medium-to-long term. Past returns have typically been very strong. Product disclosure statement (PDS) compliance processes are high-calibre. There are no corporate governance concerns. Management is extremely experienced, highly skilled and has access to significant resources.*	*Highest Investment Grade*
4¼ stars	*Superior*	***Suitable for inclusion on most APLs*** *SQM Research considers the Fund has considerable 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.*	*High Investment Grade*
4 stars	*Superior*	***Suitable for inclusion on most APLs*** *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 material governance concerns. Management is of a high calibre.*	*High Investment Grade*
*3¾ stars**	*Favourable*	***Consider for APL inclusion*** *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, however they may not be yet fully tested. As a result the manager/product may have higher risks attached compared to peers.*	*Investment Grade*
*3½ stars**	*Acceptable*	***Consider for APL inclusion*** *In SQM Research's view, the potential for future outperformance in the medium-to-long term is uncertain. Historical performance has tended to be modest or patchy. Management is generally experienced and displays investment-grade quality, however they may not be yet fully tested. As a result the manager/product may have higher risks attached compared to peers. SQM Research has identified material weaknesses which need addressing in order to improve confidence in the Manager. There might be some corporate governance concerns.*	*Low Investment Grade*
3¼ stars	*Caution Required*	***Not suitable for most APLs*** *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 potentially substandard. There might be material corporate governance concerns. Management quality is not of investment-grade standard.*	
3 stars	*Strong Caution Required*	***Not suitable for APL inclusion*** *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 could be material corporate governance concerns. SQM Research has a number of concerns regarding management.*	
Below 3 stars	*Avoid or Redeem*	***Not suitable for APL inclusion*** *SQM Research has multiple material concerns surrounding the Fund.*	
Event-driven Rating		**Definition**	
Withdrawn		*The rating is no longer applicable. Significant issues have arisen since the last report was issued, and investors should avoid or redeem units in the fund. The manager, after agreeing to be reviewed, has pulled out of the process and/or has not responded to our questionnaire.*	
Hold		*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. Dealer groups should not be making further investments into this fund until SQM has completed its additional investigations.*	

* *It is strongly recommended advisers conduct additional due diligence over and above base requirements when considering such rated funds..*

** *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.*

CONTENTS

SQM Rating ★★★★½

Favourable. Consider for APL inclusion.

Fund Description	
Fund Name	Pengana High Conviction Property Securities Fund
APIR code	PCL8246AU
Asset Class	A-REITs
Management and Service Providers	
Fund Manager	Pengana Capital Limited
Responsible Entity	Pengana Capital Limited
Fund Information	
Fund Inception Date	11 March 2020
Fund Size	$21.83 million (as of Sep-2024)
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	Currently: 12 (Maximum allowed: 20)
Fund Leverage	None
Portfolio Turnover	Expected to be Low/Medium (Average 40-50%)
Top 10 Holdings Weight	93.85%
Investor Information	
Management Fee	0.70% p.a.
TCR (Total Cost Ratio)	0.854% 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

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 (A-REITs). The Fund may also invest up to 10% of its assets in listed (or soon-to-be listed) International property securities (or G-REITs). Pengana includes property developers and other companies associated with the property sector as part of its investible universe. The Fund is benchmark unaware and not confined to securities in the S&P/ASX 300 A-REIT Index. Pengana focuses on diversifying into new growth sectors driven by secular trends such as childcare, seniors living, healthcare, data centres, real estate private credit and agriculture, all of which provide defensive sustainable growth and diversification from core real estate sectors (i.e. office, retail and industrial).

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 – 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	Investment Grade

Previous Rating: 3.75 stars (Issued Oct 2023)

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 diversified 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 its 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 **40%** of the business, which is profitable. Pengana manages about **A$3.5 billion** and has about **57** staff members.

Investment Team

The investment team, responsible for stock selection, portfolio construction and portfolio management, comprises:

- Portfolio Manager: Amy Pham
- Investment Specialist: Jade Ong
- Investment Analyst: Sam Craig

The team is led by **Amy Pham,** who has over 25 years of experience in property funds management; **Jade Ong,** who has over 20 years of experience in A-REIT investing and corporate advisory; and **Sam Craig,** with 8 years of property and finance experience.

The team resides in the Sydney office and employs a flat structure with all members involved in idea generation, company analysis and portfolio management. Amy Pham has the ultimate 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 the investment process, ensuring adherence to the mandate, and assessing the 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 a high-conviction A-REIT 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.

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 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 cash flow 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 property investments' risk/return characteristics.

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

Pengana's high conviction approach is based on the view that the A-REIT sector is highly concentrated and that benchmark-aware managers lack the ability to generate alpha. The Manager is of the view that a high conviction approach enables investment in the best-positioned assets and sectors at any point in time, with an 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, real estate private credit and agriculture, all of which provide defensive sustainable growth and diversification from core real estate sectors (i.e. office, retail and industrial).

Pengana undertakes its proprietary research in assessing both qualitative and quantitative factors to build a concentrated portfolio from an investable universe of Australian Real Estate Investment Trusts (A-REITs), Real Estate Fund Managers and Developers and other real estate-related businesses. Key focuses are **quality of management**, **quality of assets** that are able to generate **sustainable free cash flow** and a **strong balance sheet** to support future growth. The team has continued to expand its coverage of stocks and sector analysis and currently has developed financial models in-house on all the stocks to cover its 50-stock investable universe. It 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 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.

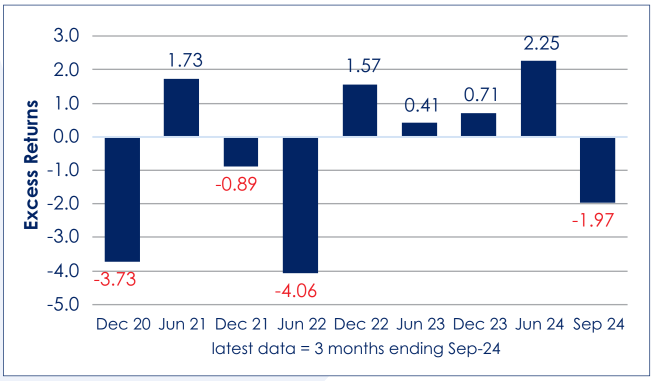
2. Performance & Risk

Return Objective

The investment return objective stated in the PDS is: "The Fund's investment objective is 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 **4.5 years** (or 54 months).

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

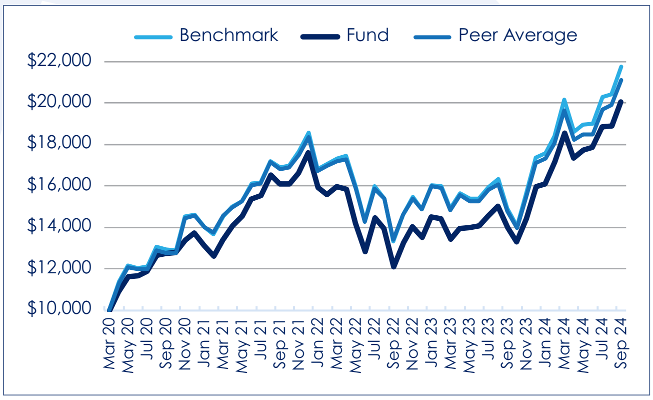
Risk Objective

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 2024 (% p.a.)							
Total Return	**1-Month**	**3-Month**	**6-Month**	**1-Year**	**3-Year**	**5-Year**	**Inception**
Fund	6.28	12.33	8.13	43.69	7.64	.	16.73
Benchmark	6.45	14.30	7.83	45.93	8.82	.	18.83
Peer Average	6.04	14.11	7.39	42.84	7.83	.	18.01
Alpha	-0.17	-1.97	0.30	-2.25	-1.18	.	-2.10

With distributions 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 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

- Pengana, as a group, has built up a long track record (21 years) of managing money across various Funds, specialising in Australian & International Equities. Pengana currently manages about **$3.5 billion** in FUM and has over 50 employees.
- The Fund's investment team is experienced and knowledgeable. Amy Pham and Jade Ong have significant industry experience and are supported by Sam Craig (Investment Analyst), 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 employs a true-to-label strategy, holding high-conviction investment ideas and a moderate/low portfolio turnover as the strategy seeks to identify medium to long-term value from the securities it holds. In the last 1 year, the turnover was 46.37% and averaged around 50% over the past 3 years.
- The Fund has a relatively high Active Share and 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

- The Fund charges a high-performance fee of **15**% of excess net returns above benchmark, which stands out as notably higher compared to the A-REIT peers that generally do not charge performance fees.
- The Responsible Entity Board of Directors (Pengana Capital Limited) has no independent directors. SQM Research prefers the inclusion of independent members on the Board of Directors as it is a meaningful way to enhance governance and oversight.

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 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 also 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 around **50%**, the **Dividend Yield** of the portfolio holdings averaged around **4%**, and **allocation to non-index stocks** has averaged about **15%-20%** since inception.
- The Fund can also invest a small portion (**up to 10%**) in **Global REITs** and globally listed real estate managers and developers. However, the target allocation is currently zero; any foreign currency exposure would be left **unhedged**.
- The Fund has implemented an innovative climate risk management framework developed by the PENPSS team, specifically designed for residential REITs' products to evaluate bushfire and flooding risks, which are quite common in Australia. As part of this process, ESG environmental scores are adjusted to reflect each company's resilience in handling climate-related risks and include assessing the company's earnings exposure to high-risk areas for bushfires and floods.

Key Changes Since the Last Review

- There have been no material changes in the investment process since the last review. However, 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 competitive A-REITs that are 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 and qualitative factors. It forms a starting point for discussion amongst team members on stock selection, portfolio weights, and portfolio monitoring. • The team formally models key financial metrics and maintains financial models on all the companies covered under the fund's 50-stock investable universe.

Investment Process

Research and Portfolio Construction Process

...continued

- 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 ESG questionnaire.
- The valuation ranking consists of a **30% weight to ESG factors**. This assessment is conducted internally and also incorporates an assessment of product involvement, with securities marked down if they have more than **10%** of earnings exposed to unethical sectors such as alcohol, tobacco, gambling or fossil fuels.

Idea Generation

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.

Screening

The Fund's **unfiltered universe** consists of **75** listed real estate securities or real estate-related businesses. The team screens out stock based on the following:

- **<$50 million market capitalisation**
- **Poor corporate governance**

This leaves the team with approximately **50 domestic REITs** and **3 global REITs** that they further analyse and update.

The team also screens out securities that have poor corporate governance.

This results in a list of approximately **50 Australian securities**, of which **30 are index stocks** and **20 are non-index stocks**. The Fund can also invest a small portion of the Fund (**up to 10%**) in **global REITs** and global listed real estate managers and developers. However, the target allocation is currently zero.

Investment Process	
Research and Portfolio Construction Process ***...continued***	**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, including asset owners, operators, developers, investors, and leaseholders. • An ESG questionnaire. The team focuses on: • Positive free cashflow, as it provides earnings certainty and dividend growth. • Strong balance sheet (not just LVR but ICR) to maintain operational costs and growth opportunities. • Positive thematic drivers or long WALEs to provide sustainable earnings growth and reduce structural headwinds. Both qualitative and quantitative factors (**assigned 50% weightage to each factor**) 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. Company meetings and site visits are documented. They are important from the team's perspective as they provide a deeper understanding of the asset and its demographics, along with interactions with asset managers, in order to form a complete view of management capabilities. Which is then used in the financial models and management rankings (i.e. from **-2 to +2**), which feeds directly into the valuation ranking model. **70%** of the rank is attributed to the stock's **financials** and **quality management/assets,** and the remaining **30%** takes into account the **ESG component** and ultimately invests in quality companies generating **sustainable returns**. 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." ***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.***

Investment Process

Research and Portfolio Construction Process

...continued

Portfolio Construction

After screening potential stock opportunities, their fundamentals and outlooks are evaluated using financial statements, research, and company interactions. Trades, including broker allocations like IPOs, are proportionally distributed, considering mandates with varying risk limits and rules.

Buy decisions focus on:

- Fundamental quality and valuation
- Non-fundamental factors (e.g., risk appetite, M&A, behavioural investing, technicals, indexation)
- Risk/reward assessments

Portfolio construction combines "bottom-up" security analysis, "top-down" research, and the investment team's expertise, with attention to management quality and ESG factors. Stock allocations are based on conviction and sector diversification: 0%-20% for index stocks and 2%-5% for non-index stocks. Up to 10% may be allocated to G-REITs and real estate-related companies.

The fund aims to be nearly fully invested, holding up to 20% cash when suitable opportunities are lacking (long-term expected cash allocation is 0%-5%).

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 thematics 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.

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

Material Risks

Material risks which are associated with the Fund include:

Market Risk: Economic, technological, political or legal conditions and market sentiment change can affect the value of the investments in the Fund.

Liquidity Risk: This is a risk that an investment may not be able to be sold quickly enough to prevent or minimise a loss. A lack of liquidity may also affect the amount of time it takes the manager to satisfy withdrawal requests.

Individual Investment Risk: The value of the Fund's portfolio may be affected by unexpected changes in the value of the investments in the portfolio. Such changes may be due to unexpected company-specific issues that impact the market value of the individual investments.

Counterparty Risk: There is a risk of loss caused by another party, including the custodian (BNP), defaulting on their financial obligations.

International Investing Risk: The risk of international investing includes adverse currency fluctuations, foreign withholding tax or duties on income or capital gains, securities regulations, market and settlement practices, limited liquidity and volatility of investments.

Portfolio Characteristics

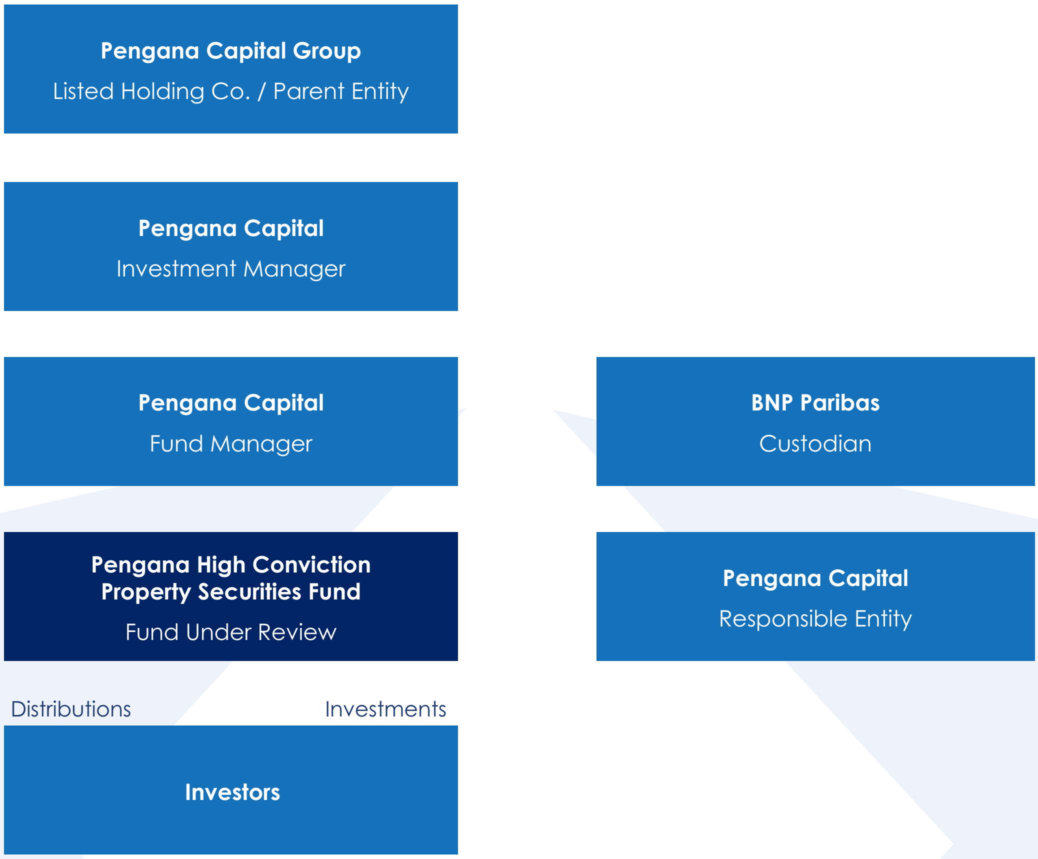
Portfolio Biases/Preferences

The Fund seeks investment 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, real estate private credit and agriculture. These sectors offer **defensive sustainable growth** and **diversification from core real estate** sectors (i.e. office, retail and industrial).

The Fund has a market cap bias as it invests principally in listed or soon-to-be listed real estate securities with a **minimum market capitalisation** of **A$50 million**. ESG factors are integrated alongside financial metrics to provide a comprehensive assessment of the risk/return profile of each investment. The valuation ranking consists of a **30%** weight to ESG factors, and securities are marked down if they have more than **10%** of earnings exposed to unethical sectors such as alcohol, tobacco, gambling, or fossil fuels.

Investment Process	
Research and Portfolio Construction Process ***...continued***	**Portfolio Turnover and Active Share** Portfolio Turnover is expected to be in the range of **40-50%** per annum. SQM Research notes that the turnover has been around **46%** in the last year and, since inception, has averaged around **50%.** The active share, as reported by the manager, is **35%,** and historically, it has averaged around **50%** since inception, which is reasonably high but to be expected considering the Fund is benchmark unaware and had high exposure to non-index securities. **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. As reported by the manager, **100% of the portfolio can be liquidated using 30% of the average 30-day trading volume (May to July 2024).** **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).

Pentane'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 **40%** of the business, which is profitable. Pengana manages about **A$3.5 billion** and has about **57** 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 **32.7** 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 **38.3** years of industry experience.

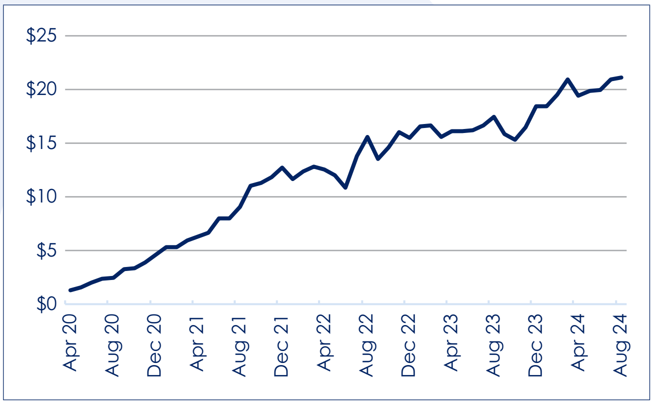
Management Risk

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 to modest.'

Funds under Management (FUM)

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-22	5.93
Sep-22	0.96
Dec-22	1.00
Mar-23	0.47
Jun-23	1.68
Sep-23	0.71
Dec-23	1.11
Mar-24	0.64
Jun-24	2.19

Name	Responsibility / Position	Location	Years at Firm	Years in Industry
Amy Pham	Portfolio Manager & Investment Analyst	Sydney	4.5	29.0
Jade Ong	Investment Specialist	Sydney	4.5	21.0
Sam Craig	Investment Analyst	Sydney	2.6	7.5

Investment Team

The investment team comprises **two** experienced AREIT managers, **Amy Pham** (Portfolio Manager and Investment Analyst), **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. Amy Pham has final responsibility for portfolio management decisions and performance, including analysis, research, and fund reporting. Jade Ong assists Amy Pham in strategy analysis and provides back-up to her. They worked together previously at IAG for 3 years, so there is a reasonable 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 **Nick Griffiths** (CIO of Pengana Capital), who is responsible for reviewing the investment process, ensuring 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.

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

There have been no departures in the last 3 years.

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%	0.75%
Expense Recovery / Other Costs (% p.a.)	–	–
Performance Fee (%)	15.00%	0.00%
Total Cost Ratio TCR (% p.a.)	0.854%	0.80%
Buy Spread (%)*	0.25%	0.19%
Sell Spread (%)*	0.25%	0.19%

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

**Peer average is based on data provided by SQM's data provider. SQM is not responsible for any errors or omissions.

Management Fee

The management fee includes GST and is net of any applicable Reduced Input Tax Credits (RITC). The Management Fee includes the Responsible Entity fees as well as the investment manager fees.

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 0.70% p.a., which is 5 basis points lower than the peer group average of 0.75%.***
- ***The Total Cost Ratio (TCR) is 0.854% p.a., which is 5 basis points higher than the peer group average.***

Risk/Return Data to 30 September 2024							
Total Return	**1-Month**	**3-Month**	**6-Month**	**1-Year**	**3-Year**	**5-Year**	**Inception**
Fund	6.28	12.33	8.13	43.69	7.64	.	16.73
Benchmark	6.45	14.30	7.83	45.93	8.82	.	18.83
Peer Average	6.04	14.11	7.39	42.84	7.83	.	18.01
Alpha	-0.17	-1.97	0.30	-2.25	-1.18	.	-2.10
Metrics				**1-Year**	**3-Year**	**5-Year**	**Inception**
Tracking Error (% p.a.) - Fund				4.34	4.08	.	6.10
Tracking Error (% p.a.) - Peer Average				2.64	2.67	.	2.82
Information Ratio - Fund				-0.52	-0.29	.	-0.34
Information Ratio - Peer Average				-0.69	-0.25	.	-0.05
Sharpe Ratio - Fund				2.12	0.22	.	0.75
Sharpe Ratio - Peer Average				1.88	0.23	.	0.77
Volatility - Fund (% p.a.)				18.53	22.25	.	19.85
Volatility - Peer Average (% p.a.)				20.41	22.02	.	20.81
Volatility - Benchmark (% p.a.)				21.18	23.10	.	21.61
Beta based on stated Benchmark				0.86	0.95	.	0.88

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

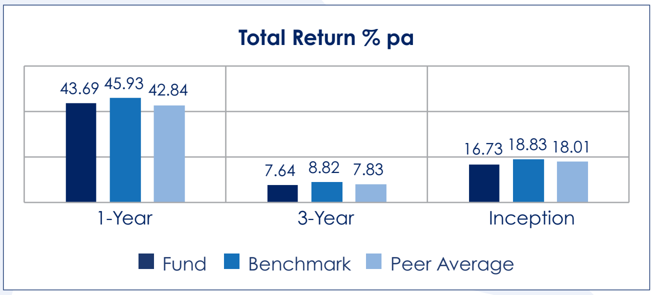
Benchmark: S&P/ASX 300 A-REIT TR

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.

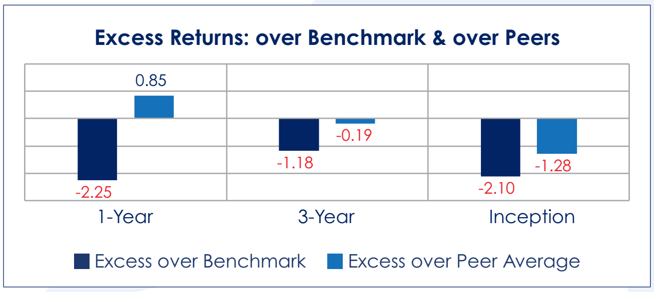
Quantitative Insight[1]

Note: Unless otherwise stated, all return and risk data reported in this section are **after-fees** and for **periods ending Sep-2024.**

Returns



Excess Returns (Alpha)



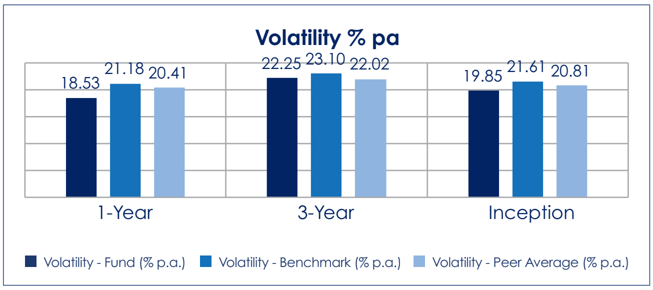
The Fund has underperformed its benchmark across most periods, including since inception. When compared to its peers, the Fund has underperformed on a long-term since inception basis; however, slightly outperformed over the last 1 year. SQM Research notes that in absolute terms, the returns over the past year have been quite attractive in general for the overall sector, reflected in the total returns of the Fund, peers and the benchmark.

The outperformance of the Fund in the last 12 months was primarily driven by its high conviction approach in being underweight office REITs, stock selection in large cap and diversified REITs based on preference for industrial, quality retail and affordable housing, and exposure to non-index holdings.

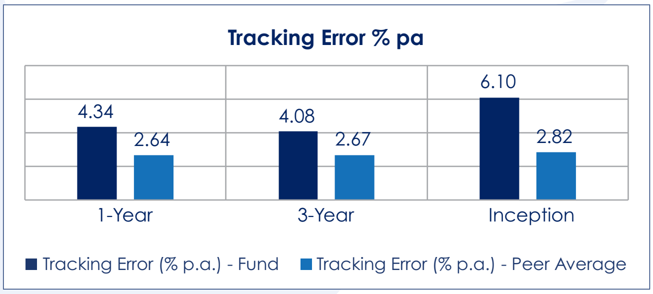
The **return outcomes** as described above are below the PDS objective and are below SQM's expectations for the Fund relative to its fee level and volatility.

[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 across most periods.



The Fund's **tracking error** (annualised standard deviation of monthly **excess** returns) has tended to be higher than that of its peers due to its concentrated, high conviction, and benchmark unaware approach. Additionally, the Fund has exposure to non-index stocks and A-REITs outside the benchmark.

Drawdowns

Drawdown Summary			
Drawdown Size (peak-to-trough)			
	Fund	**Bench**	**Peers**
Average	-12.20%	-7.83%	-7.27%
Number	4	6	7
Smallest	-2.62%	-1.22%	-0.93%
Largest	-31.36%	-28.34%	-26.88%
Length of Drawdown (in months)			
	Fund	**Bench**	**Peers**
Average	9.5	7.3	7.3

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

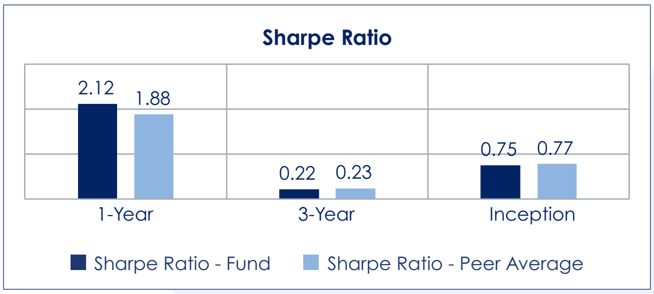
Average drawdowns have been materially worse than the benchmark and the peer average.

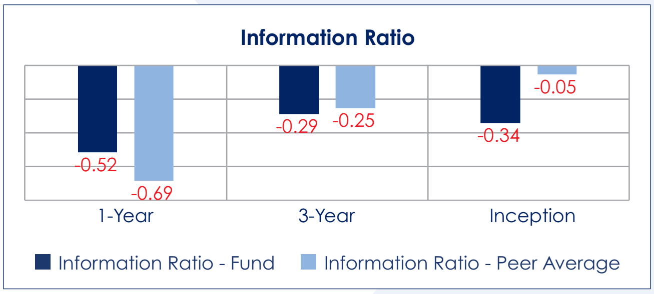
Upside/Downside Capture

	Downside Capture		Upside Capture	
	3 years	**Inception**	**3 years**	**Inception**
Fund	93.2%	92.2%	91.8%	90.7%
Peer Average	94.9%	93.6%	93.4%	94.5%

for a cash benchmark, downside capture is not valid

Risk-Adjusted Returns





The Fund's risk-adjusted return (as measured by the **Sharpe ratio**) has been similar to that of the peer average in the last 3 years and since inception, with marginal improvement seen in the past 1 year. The Fund's **Information ratio** has been worse than the peer average since inception but has slightly improved more recently.

Correlation of Fund to Asset Classes

Market	3 years	Inception	Market Indexes
Aust Bonds	+57.0%	+55.1%	Bloomberg AusBond Composite 0+Y TR
Aust Equity	+85.8%	+81.1%	S&P/ASX 300 TR
Global Bonds	+65.2%	+63.1%	Bloomberg Global Aggregate Hdg AUD
Global Equity	+71.0%	+70.8%	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-24**

Rank	Date	Market	Fund	Difference
1	Jun-22	-8.97%	+0.52%	+9.48%
2	Jan-22	-6.45%	+1.62%	+8.08%
3	Sep-22	-6.29%	+7.95%	+14.25%
4	Oct-23	-3.80%	-1.37%	+2.43%
5	Dec-22	-3.29%	-1.09%	+2.20%
6	Apr-24	-2.92%	-0.34%	+2.58%
7	Sep-23	-2.89%	+3.35%	+6.24%
8	May-22	-2.76%	+11.03%	+13.79%
9	Feb-23	-2.55%	+1.76%	+4.31%
10	May-23	-2.53%	+1.18%	+3.71%
Totals		**-43.53%**	**-64.69%**	**-21.17%**

			No. of Months
Correlation	+55.3%	Positive Return	1
Capture	+148.6%	Outperform	2

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 2-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	**7**	0	7
Lo-Return	14	10	24
Total	**21**	**10**	**31**

31 rolling 2-year observations

% of Total	Lo-Vol	Hi-Vol	Total
Hi-Return	**0.0%**	51.9%	51.9%
Lo-Return	0.0%	48.1%	48.1%
Total	**0.0%**	**100.0%**	**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.

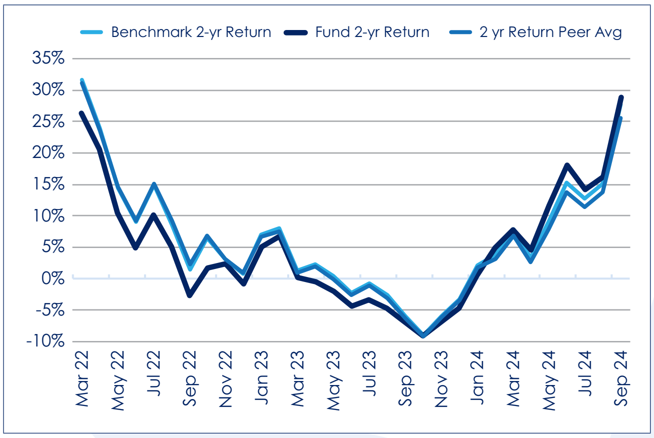
Annual Returns

Year	Fund	Benchmark	Peer Avg	vs. Bench	vs. Peers
2021	+28.03	+27.03	+26.02	**+1.00**	**+2.01**
2022	-23.13	-20.06	-18.98	**-3.07**	**-4.15**
2023	+18.10	+16.90	+15.23	**+1.20**	**+2.88**
Sep-24	+25.63	+25.26	+23.30	**+0.37**	**+2.32**

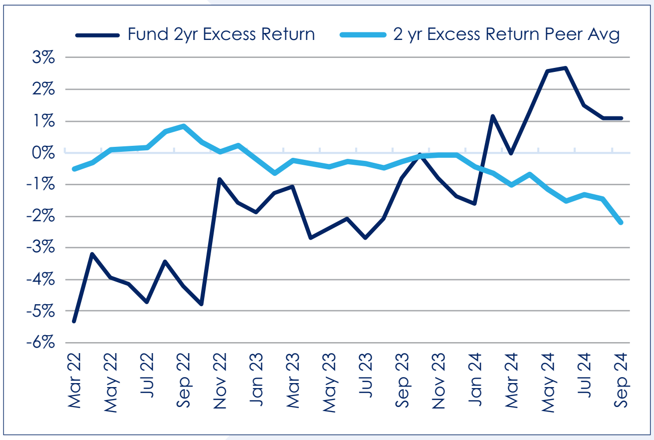
2024 data = 9 months ending Sep-24

Return and Risk

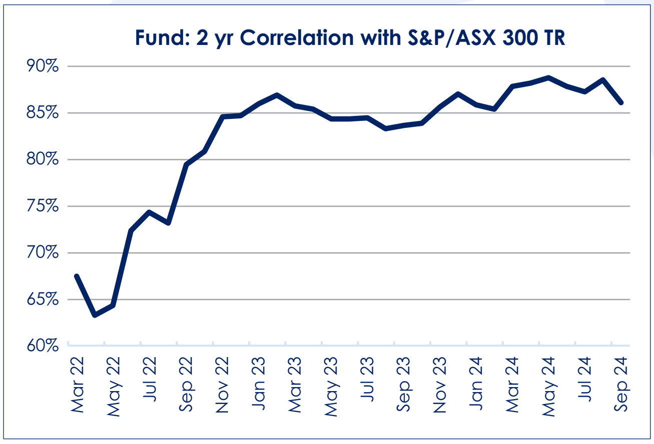
Rolling Returns



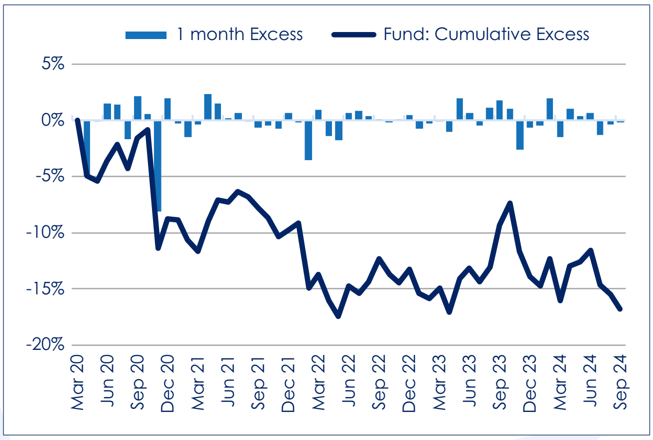
Rolling Excess Returns



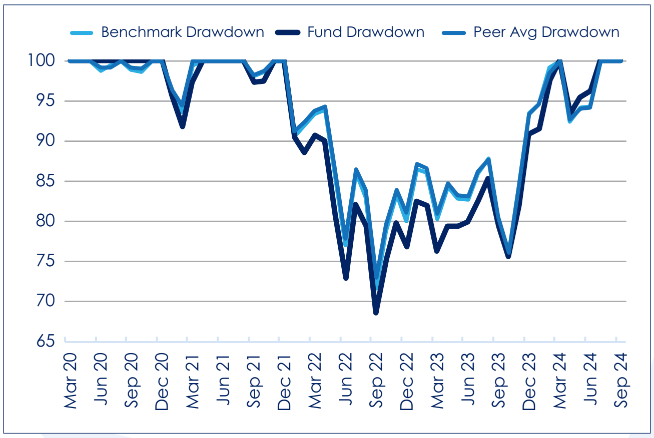
Rolling Correlation



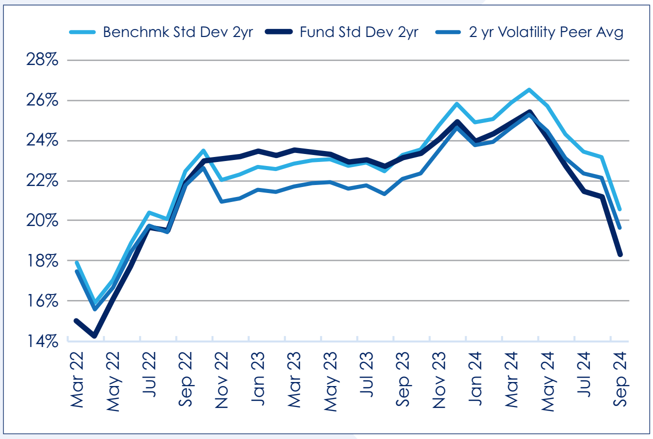
Cumulative Excess Returns



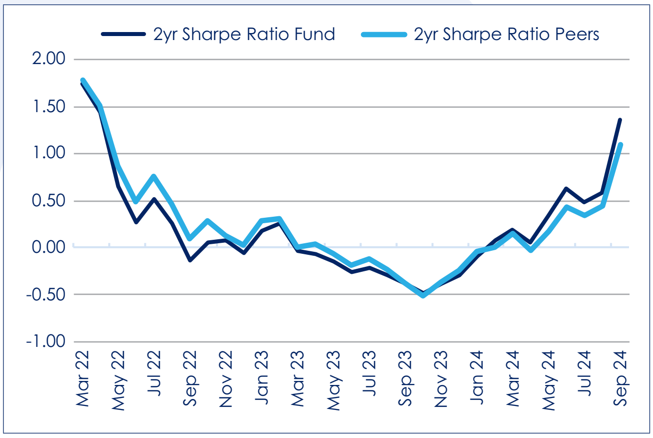
Drawdowns



Rolling Volatility



Rolling Sharpe Ratio



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	Industrial REITs	35.69%	Australia
SCG	Scentre Group	Retail REITs	13.92%	Australia
SGP	Stockland	Diversified REITs	9.17%	Australia
HDN	HomeCo Daily Needs REIT	Retail REITs	5.58%	Australia
INA	Ingenia Communities Group	Multi-Family Residential REITs	5.26%	Australia

* 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

Alpha = Fund Return – 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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