# MONTHLY REPORT
FEBRUARY 2024

## PENGANA AUSTRALIAN EQUITIES FUND

### DESCRIPTION

The Pengana Australian Equities Fund aims to enhance and preserve investor wealth over a 5- year period via a concentrated core portfolio of principally Australian listed securities. The Fund uses fundamental research to evaluate investments capable of generating the target return over the medium term. Essentially, we are in the business of seeking to preserve capital and make money – we are not in the business of trying to beat the market. We remain focused on acquiring and holding investments that offer predictable, sustainable and well-stewarded after-tax cash earnings yields in excess of 6% that will grow to double digit levels as a percentage of our original entry price in five years. We believe that building a well-diversified portfolio of these "gifts that keep on giving" represents a meaningful way to create and preserve financial independence for our co-investors.

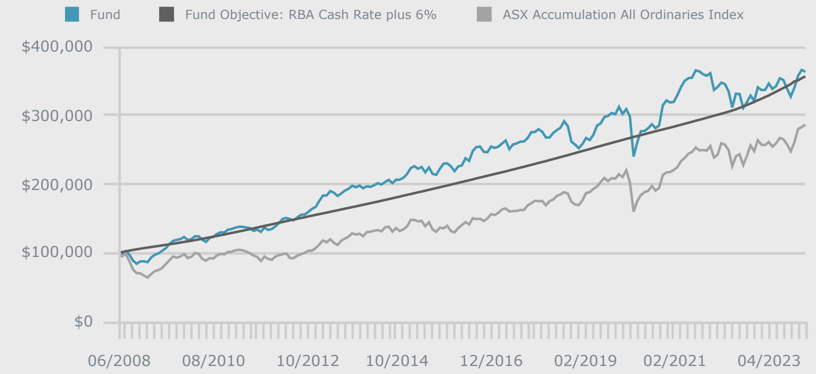
### PERFORMANCE TABLE

NET PERFORMANCE FOR PERIODS ENDING 29 Feb 2024[1]

| | 1 MTH | 1 YEAR | 3 YEARS P.A. | 5 YEARS P.A. | 10 YEARS P.A. | SINCE INCEPTION P.A. |
|---|---|---|---|---|---|---|
| Australian Equities Fund | -0.7% | 7.9% | 4.4% | 6.4% | 6.3% | 8.6% |
| Fund Objective: RBA Cash Rate plus 6% | 0.8% | 10.1% | 8.0% | 7.4% | 7.6% | 8.5% |
| ASX Accumulation All Ordinaries Index | 1.2% | 11.3% | 9.1% | 9.0% | 8.2% | 6.9% |

### PERFORMANCE CHART

NET PERFORMANCE SINCE INCEPTION[2]




### TOP HOLDINGS (ALPHABETICALLY)

| | |
|---|---|
| BHP Group Ltd | Materials |
| Contact Energy Ltd | Utilities |
| CSL Ltd | Health Care |
| Medibank Pvt Ltd | Financials |
| National Australia Bank Ltd | Financials |
| nib holdings Ltd/Australia | Financials |
| ResMed Inc | Health Care |
| SG Fleet Group Ltd | Industrials |
| Telstra Group Ltd | Communication Services |
| Woolworths Group Ltd | Consumer Staples |

### SECTOR BREAKDOWN

| | |
|---|---|
| Consumer Discretionary | 11.4% |
| Consumer Staples | 6.9% |
| Financials | 24.6% |
| Health Care | 15.7% |
| Industrials | 5.3% |
| Materials | 12.6% |
| Real Estate | 2.6% |
| Communication Services | 7% |
| Utilities | 3.6% |
| Cash | 10.2% |

### CAPITALISATION BREAKDOWN

| | |
|---|---|
| ASX 1-50 | 16.1% |
| ASX 51-100 | 12.6% |
| ASX 101-300 | 36.6% |
| All Ordinaries | 6.3% |
| Non ASX | 18.2% |
| Cash | 10.2% |

### CUSTOM SECTOR BREAKDOWN

| | |
|---|---|
| Defensive | 49.7% |
| Financials | 20.6% |
| Consumer Discretionary | 11.3% |
| Resources | 8.2% |
| Cash | 10.2% |

### STATISTICAL DATA

| VOLATILITY[3] | NUMBER OF STOCKS | BETA[4] | MAXIMUM DRAW DOWN |
|---|---|---|---|
| 11.4% | 26 | 0.63 | -23.1% |

# WE TOOK OUR GAINS EARLY CALENDAR YTD

## COMMENTARY

The Fund generated a -0.7% return in February. By way of comparison, the Australian stock market rose by 1.2%, whilst the return of the RBA cash rate plus 6% equated to approximately +0.8% for the month. Calendar year to date, the Fund has achieved a return of +1.7%, in line with the cash plus 6% benchmark for the 2 months, and compared to the market's growth of 2.2% over the same period.

At the headline, it was a disappointing month for the Fund. However, we consider it relevant to focus on the calendar year-to-date performance given the spread of corporate reporting across the two months, with trading updates in January pulling forward the positive contributions of certain investments into that period. This year, the Fund benefited in particular from early trading updates from **Resmed**, discretionary retailers **Super Retail** and **Accent Group**, as well as strong trading momentum from health insurers **NIB** and **Medibank**, to outperform the market with a +2.4% return in January. February was not without its challenges, and we continue to assess each of our investment theses as new information arises. That said, as we exit the half-year reporting season, we are pleased to have been able to validate our investment thesis for the vast majority of the Fund's positions and to be tracking in line with our benchmark return calendar year date.

Expectations were quite low going into this February's reporting season, with the anticipated subdued revenue environment, elevated cost inflation, and rising interest costs well baked into consensus estimates. Whilst each of these themes were clearly evident in many of the results, on balance corporate earnings were modestly 'less bad' than investors had feared, with better than expected management of the operating cost line a common theme. Following a robust market return over the month, our observation is that many investors appear to have taken on increased levels of risk at an elevated point in the market (the ASX closed the month at all time highs). Furthermore, the market gains were almost entirely driven by a re-rating of valuations, with very little earnings support (i.e. positive earnings revisions) for the higher share prices over the month.

Trading was volatile in the period, with a record number of stocks (almost 30%) moving +/- 5% or more on the day of reporting. Such an environment has us on high alert and we continue to focus on our defensive positioning and a 10%+ cash holding to navigate any potential speed bump in what increasingly feels to be a momentum driven market. As an interesting aside, we note there were 24 CEO, CFO and Chair transitions in the ASX300 this February, following 10 from January, representing a substantial increase from the 16 in the same period last year.

Notable contributions to the Fund's performance during the month came from **SG Fleet** (solid earnings momentum at attractive valuation levels) and **CSR** following a takeover bid from St Gobain. **Credit Corp** traded well through the month following a solid result on January 31. The banks once again outperformed during February and the Fund primarily benefited from its holding in **NAB**, supported by positions in **CBA** and **Macquarie Group**. **JB Hi-Fi** and **Aristocrat** continued their trend of positive contributions to performance this financial year.

Detractors included **Ryman Healthcare**, following a sluggish trading update, **NIB Insurance**, which reported a sound set of results however failed to meet elevated expectations after a very strong share price run-up in January, and **CSL** where solid fundamentals in the core plasma business were overshadowed by the discontinuation of the CSL 112 drug trials. **Resmed** returned some of its recent gains despite a solid set of results, and **Woolworths** shares digested the earlier than expected departure of CEO Brad Banducci amidst a swell of public, or perhaps more so political, scrutiny of the Australian supermarket industry pricing tactics.

We continue to believe that the Fund is well positioned to navigate the existing volatility and deliver on our objectives of cash plus 6% in the medium term, given its defensive positioning, solid balance sheets and focus on businesses generating cash now. Despite the overall strength in markets in recent months, by month end the portfolio was generating a cash yield of 6.7% for FY25 – which is to say if the companies that we are invested in meet our forecasts, they will in aggregate generate an incremental 6.7% of the portfolio's value in free cash over the next 12 months. Together with earnings growth, capital returns, and potential for valuation uplift, this cash yield underpins our medium term investment objectives.

Thematically, whilst the headlines have been trending down, we expect inflation to continue to percolate through the global economy. Inflation has likely peaked, however we expect it to remain elevated and therefore see little scope for rate relief in the medium term. From a valuation perspective, this environment typically favours portfolios whose valuation is predominately focused on current earnings and cash flows (such as this Fund), as opposed to those whose valuations are more dependent on future earnings and cash flows. Our cash balance remains healthy and ready to deploy should future opportunities present.

We remain as focused as ever on our primary objectives of capital preservation and generating a reasonable real return for our investors. We continue to believe this is best served by a disciplined approach and consistent investment methodology. A variety of good businesses run by honest and competent management teams at the right price will create a well-diversified portfolio of ever-growing cash earnings streams.

## FEATURES

| | |
|---|---|
| APIR CODE | PCL0005AU |
| REDEMPTION PRICE | A$ 1.8045 |
| FEES * | Management Fee: 1.025%<br>Performance Fee: 10.25% |
| MINIMUM INITIAL INVESTMENT | A$10,000 |
| FUM AT MONTH END | A$ 599.44m |
| STRATEGY INCEPTION DATE | 1 July 2008 |
| BENCHMARK | The RBA Cash Rate Target plus Australian equity risk premium. |

## FUND MANAGERS

**Rhett Kessler**
CIO and Senior Fund Manager

**Anton du Preez**
Deputy CIO and Fund Manager

1. Net performance figures are shown after all fees and expenses, and assume reinvestment of distributions. The benchmark of cash rate plus 6% p.a. is included in the chart as it relates to the Fund's investment objective and performance fee. The Fund may invest up to 100% of its assets in equity securities. The greater risk of investing in equities is reflected in the addition of a margin above the cash rate. No allowance has been made for buy/sell spreads. Please refer to the PDS for information regarding risks. Past performance is not a reliable indicator of future performance, the value of investments can go up and down.
2. Inception 1st July 2008.
3. Annualised standard deviation since inception.
4. Relative to ASX All Ordinaries Index. Using daily returns.
*(including GST, net of RITC) of the increase in net asset value subject to the RBA Cash Rate & High Water Mark. For further information regarding fees please see the PDS available on our website.

## PENGANA AUSTRALIAN EQUITIES FUND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