PENGANA CAPITAL GROUP

MONTHLY REPORT
APRIL 2023

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.

STATISTICAL DATA

VOLATILITY[3]	NUMBER OF STOCKS	BETA[4]	MAXIMUM DRAW DOWN
11.5%	23	0.63	-23.1%

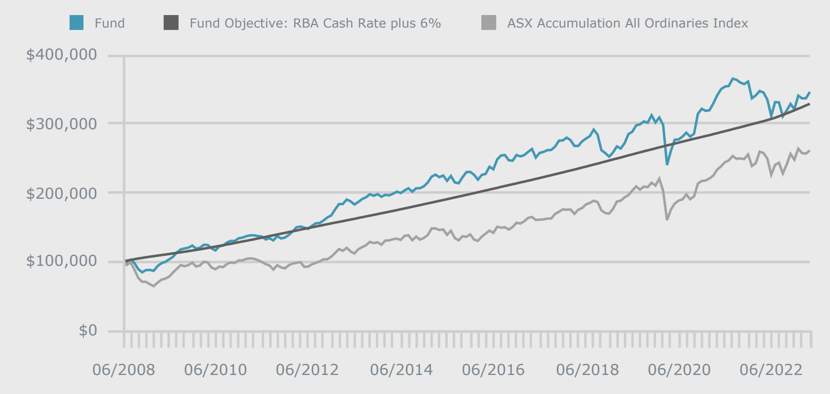
PERFORMANCE TABLE

NET PERFORMANCE FOR PERIODS ENDING 30 Apr 2023[1]

	1 MTH	1 YEAR	3 YEARS P.A.	5 YEARS P.A.	10 YEARS P.A.	SINCE INCEPTION P.A.
Australian Equities Fund	2.7%	0.2%	9.9%	5.3%	6.2%	8.7%
Fund Objective: RBA Cash Rate plus 6%	0.7%	8.3%	6.8%	7.0%	7.5%	8.4%
ASX Accumulation All Ordinaries Index	1.8%	1.5%	14.4%	8.4%	8.1%	6.7%

PERFORMANCE CHART

NET PERFORMANCE SINCE INCEPTION[2]



TOP HOLDINGS (ALPHABETICALLY)

BHP Group Ltd	Materials
CBA	Financials
CSL	Health Care
Evolution Mining	Materials
Medibank Private	Financials
NAB	Financials
NIB Holdings	Financials
ResMed	Health Care
Telstra	Communication Services
Woolworths	Consumer Staples

SECTOR BREAKDOWN

Consumer Discretionary	11.5%
Consumer Staples	5.9%
Financials	26.1%
Health Care	14.7%
Industrials	3.4%
Materials	15.1%
Communication Services	7%
Utilities	2.8%
Options	0.2%
Cash	13.3%

CAPITALISATION BREAKDOWN

ASX 1-50	54.7%
ASX 51-100	11.4%
ASX 101-300	10.1%
All Ordinaries	4.9%
Non ASX	5.4%
Derivatives	0.2%
Cash	13.3%

CUSTOM SECTOR BREAKDOWN

Defensive	45.5%
Financials	21%
Consumer Discretionary	10.3%
Resources	9.7%
Options	0.2%
Cash	13.3%

DEFENSIVE HARD ASSETS DELIVER A HEALTHY POSITIVE REAL RETURN IN A DIFFICULT MARKET

COMMENTARY

The Fund generated a 2.7% return in April. By way of comparison, the Australian stock market grew by +1.8%, whilst the (annual) return of the RBA cash rate plus 6% equated to approximately +0.7% for the month. Calendar year to date the Fund has now generated a return of +7.8%, which compares favourably to our benchmark return of +3%, and the overall market return of +5.4% over the same period. We are encouraged that over this period of time, the Fund has shown that a portfolio of defensive, hard assets have delivered a healthy, positive real return in difficult market conditions.

A pause by the RBA early in the month set a positive tone for markets – providing some relief around growth risks, whilst also suggesting we may be nearer to a terminal peak in the rate cycle. Rate sensitive and growth sectors benefited the most with REITS and Information Technology stocks outperforming. Conversely, commodity prices across the board came under pressure in April, with Oil, Iron Ore and several agricultural prices declining materially through the month, resulting in what has become an unfamiliar circumstance where Materials stocks underperformed. Gold bucked the trend, and its positive momentum through April has continued into May, resulting in a strong positive contribution from our position in Evolution Mining.

The main positive contributors to the Fund's performance in April were **Evolution Mining, NIB Insurance, CSL, Super Retail Group,** and **Telstra.** The main detractors in the month were **BHP**, a reduction in the value of put options, **SG Fleet** and **Amcor.** We continued to build on our position in **Metcash Limited,** partially offset by trimming positions in **Mirvac** (taking profits into REIT strength), **Aristocrat Leisure**, **Accent One,** and **Super Retail Group**. The trimming of shares in Super Retail in April proved fortuitous as an overreaction to its recent trading update has provided us with a more attractive entry point again this month. With the Fund's equity holdings rising in value during the month, the net movement in our cash holdings declined modestly to 13.2%.

Economic data continues to be steady but suggests caution. Headline inflation rose 7% in the 12 months to March, still elevated but an improvement on the peak of 8.4% in December. The optimism around the April pause has since been reversed by a 25bps hike in May, with caution once again the dominant driver of market performance this month. Employment data remained stubbornly high, and retail sales continues to surprise by remaining steady. National house price data has turned modestly positive once again, possibly explaining slightly improved consumer confidence, although the measure remains in negative territory.

We would note that whilst the market has responded positively to what appears to be a peak in inflation, we continue to view the macro environment as a likely headwind for equity markets in the medium term. Inflation may have peaked, but remains elevated, and still well above central bank rates globally. As a result, we expect an elevated rate environment to continue for some time yet, as opposed to the more favourable 'easing' backdrop that has supported long duration assets for much of the past 20+ years. We continue to position the portfolio with a view to navigate these challenges, ensuring exposure to business models with pricing power and low levels of price elasticity (to combat inflation) as well as those who benefit from a rising interest rate environment. In addition, our cash balance remains healthy and well above its lows from the prior year.

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$ 1.8266
FEES *	Management Fee: 1.025% Performance Fee: 10.25%
MINIMUM INITIAL INVESTMENT	A$10,000
FUM AT MONTH END	A$ 717.15m
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.

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