PENGANA
CAPITAL GROUP

MONTHLY REPORT
JUNE 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%	24	0.63	-23.1%

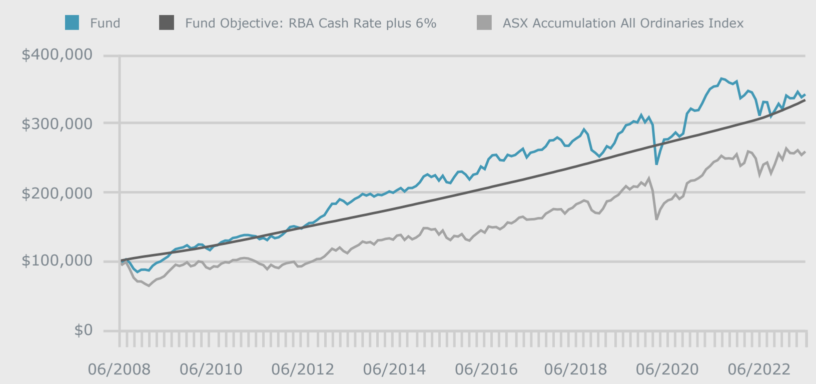
PERFORMANCE TABLE

NET PERFORMANCE FOR PERIODS ENDING 30 Jun 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	1.2%	10.0%	7.3%	4.2%	6.5%	8.6%
Fund Objective: RBA Cash Rate plus 6%	0.8%	8.9%	7.1%	7.1%	7.5%	8.4%
ASX Accumulation All Ordinaries Index	1.9%	14.8%	11.4%	7.3%	8.8%	6.6%

PERFORMANCE CHART

NET PERFORMANCE SINCE INCEPTION[2]



TOP HOLDINGS (ALPHABETICALLY)

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

SECTOR BREAKDOWN

Consumer Discretionary	9.6%
Consumer Staples	6.5%
Financials	27.9%
Health Care	14.7%
Industrials	4.1%
Materials	13.9%
Communication Services	6.4%
Utilities	2.9%
Options	0.4%
Cash	13.6%

CAPITALISATION BREAKDOWN

ASX 1-50	53.2%
ASX 51-100	11.8%
ASX 101-300	9.1%
All Ordinaries	5.7%
Non ASX	6.2%
Derivatives	0.4%
Cash	13.6%

CUSTOM SECTOR BREAKDOWN

Defensive	43.6%
Financials	23.4%
Consumer Discretionary	9.4%
Resources	9.6%
Options	0.4%
Cash	13.6%

A STRONG 2ND HALF DELIVERS +10% FOR FY23 - A HEALTHY REAL RETURN AND GREATER THAN 6% RETURN ABOVE THE CASH RATE. DEFENSIVE STANCE MAINTAINED.

COMMENTARY

The Fund generated a +1.2% return in June and +6.7% for the June half. By way of comparison, the (annual) return of the RBA cash rate plus 6% equated to approximately +0.8% for the month (+4.7% for the half), whilst the Australian stock market returned +1.9% in June and +4.7% for the half. For the 2023 financial year, the Fund's total return equated to +10%, compared to the market return of +14.8%, and a cash rate plus 6% return of +8.9%.

After a difficult start to the financial year, we are pleased that the Fund has been able to once again exceed our objective of cash +6% (after all fees and costs), and generate a real, positive return for our investors from a portfolio of defensive, hard assets.

Having taken decisive actions to address the first-half performance, it was encouraging to see a turnaround in the second half. Perhaps more than the number itself, we were particularly pleased with the nature of the second-half performance. Despite its conservative positioning, the Fund was able to participate in broad market strength during January and June, including outperforming a positive market in April. During the negative months of February, March, and May, the Fund proved its resilience, outperforming the market in each of those periods. An overall result of +6.7% for the half was pleasing both in absolute terms, and relative to the market's +4.7%, particularly given the challenging environment, and gives us confidence that the Fund is once again behaving as we expect it to across various market conditions.

Over the financial year, the Fund experienced contrasting performances in the first and second half year periods. As we have discussed previously, we were disappointed with the first half result of +3.1%, where absolute performance was impacted by negative contributions in particular from Ryman Healthcare, Evolution Mining, and a small number of less liquid names, particularly within the diversified financials space. From a relative perspective, the Fund's longstanding underweight position in materials accentuated a negative performance gap relative to the market, with that sector providing a substantial positive contribution to the overall market return in the December half.

On the stock specific front, the largest positive contributions to the Fund's performance over the year came from our discretionary retail holdings Super Retail Group and Accent Group. Our holdings in this space represent arguably our most significant counter consensual investments during the year. The Fund has been rewarded for not only resilient trading performances, but we think also an increasing recognition that both are much stronger businesses post COVID than they were beforehand. Our ongoing participation in these names is not a denial of pending consumer weakness – we absolutely expect that to materialise – rather we think the cash yields in a reset, normalised consumer environment continue to validate their position in the portfolio.

Evolution Mining – a significant drag on first half performance – finished the year as the third largest positive contributor for the Fund, rewarding our conviction for sticking with our investment thesis following a difficult calendar 2022. Importantly, the indirect gold exposure was a key counter balance for the portfolio during the challenging market periods this calendar year. Telstra continues to be a mainstay for the Fund and was also a major positive contributor during the year. Telstra's defensive qualities, strong mobile market positioning, and increasing evidence of a rational mobile industry environment are reasonably well understood, however, its substantial leverage to elevated levels of inflation, via mobile pricing and NBN contractual steppers we believe are less well appreciated, and due to lag effects will materialise in company earnings in the coming 12 months.

Other positive contributions were derived from our exposure to health insurers NHF and MPL. These businesses experienced an improving industry structure post COVID and continued to be beneficiaries of a sustained period of lower claims, improving private health insurance participation, a direct exposure to the accelerating immigration thematic (via compulsory inbound health insurance), and a higher rate environment via their investment floats.

Recent additions to the Fund include Metcash Limited and ANZ Bank. We believe Metcash offers us exposure to a relatively resilient food business and expanding hardware business via the national rollout of Total Tools – at a cash yield significantly more attractive than peers such as Woolworths, Coles, or Bunnings (within Wesfarmers). The Fund took advantage of a sell down in the banking stocks later in the financial year to gain exposure to Australia's leading institutional banking franchise in ANZ Bank.

For some time our periodical reports spoke of global economies having to digest the impending double whammy of the removal of unprecedented levels of quantitative easing and other stimulus support, whilst at the same time adjusting to the inflection point of a 40 yr downward interest rate cycle. Global inflation was the catalyst and that process has now well and truly progressed. The cost of money has risen whilst the availability of money has declined and the valuation of long duration assets has and continues to adjust.

Looking forward, we continue to plan for an environment of elevated inflation, and a low likelihood of rate relief in the medium term. We continue to position the Fund defensively, with an elevated level of put option protection (whose cost is already absorbed in the FY23 performance), and almost 15% of the portfolio in cash. We believe we will get our opportunity to deploy that cash in the near term.

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$ 1.8072
FEES *	Management Fee: 1.025% Performance Fee: 10.25%
MINIMUM INITIAL INVESTMENT	A$10,000
FUM AT MONTH END	A$ 681.8m
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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