PENGANA CAPITAL GROUP

MONTHLY REPORT
JUNE 2023

PENGANA GLOBAL SMALL COMPANIES FUND

DESCRIPTION

The Fund invests principally in small and midcap listed (or soon to be listed) global equities. Its investment objective is to obtain returns greater than the MSCI All Country World Index SMID Cap unhedged in Australian dollars ('Index') over rolling 3 year periods after fees. The Fund's investment manager, Lizard Investors LLC, uses a value oriented investment approach that seeks to identify and invest in quality businesses that create significant value but are mispriced, overlooked, or out-of-favour. The investment manager believes that unique opportunities exist due to limited available research, corporate actions, or unfavourable investor perception.

STATISTICAL DATA

VOLATILITY[3]	NUMBER OF STOCKS	BETA[4]	MAXIMUM DRAW DOWN
13%	42	0.73	-29.1%

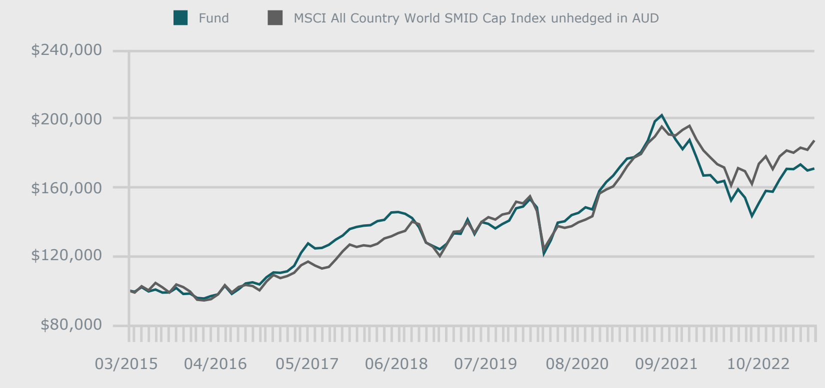
PERFORMANCE TABLE

NET PERFORMANCE FOR PERIODS ENDING 30 Jun 2023[1]

	1 MTH	1 YEAR	2 YEARS P.A.	3 YEARS P.A.	5 YEARS P.A.	SINCE INCEPTION P.A.
Global Small Companies Fund	0.7%	12.2%	-4.5%	6.8%	3.3%	6.7%
MSCI All Country World SMID Cap Index unhedged in AUD	3.0%	16.2%	0.4%	11.2%	7.0%	7.9%

PERFORMANCE CHART

NET PERFORMANCE SINCE INCEPTION[2]



TOP HOLDINGS (ALPHABETICALLY)

Dino Polska	Consumer Staples
Irish Continental Group PLC	Industrials
Majorel Group Luxembourg SA	Industrials
Orion Engineered Carbons	Materials
Softwareone Holding AG	Information Technology

CAPITALISATION BREAKDOWN

Under 2bn USD	49.5%
In between 2bn - 5bn USD	35.5%
Above 5bn USD	13%
Cash	2.1%

REGION BREAKDOWN

Europe ex UK	32.7%
North America	20.1%
Asia ex Japan	10.6%
Japan	9.5%
UK	15.9%
Middle East / Africa	2.3%
Latin America	7%
Cash	2.1%

SHARES IN GLOBAL SMALLER COMPANIES STRENGTHENED

COMMENTARY

- Shares in global smaller companies strengthened in June upon signs that inflation is now cooling and fears of a recession are easing
- Larger companies continued to outperform smaller ones, especially in technology-orientated sectors
- The Fund returned 0.7% in June, while the benchmark returned 3.0%

Global smaller companies strengthened during June, although a stronger Australian dollar detracted from returns in AUD terms. Larger companies continued to outperform smaller ones, especially in technology-orientated sectors.

The broader global share market performed well as US inflation moderated, raising hopes that interest rates may start to fall in 2024. The continued strength of economic activity and the labour market eased fears that the global economy would enter recession later this year. The US Federal Reserve stress test showed all 23 major banks had sufficient capital to survive under a severe recession scenario.

European shares made positive – but more limited – gains, reflecting receding fears of a potential energy crisis. However, there were cautionary signs as both the service and production indices contracted in June. UK equities also made gains, with positive GDP growth despite inflation remaining well above target. The Bank of England raised the interest rate by 0.50% to 5.00% in June, the 13th successive increase. The market expects more interest rate hikes before the year-end.

Japanese stocks continued to perform well, benefiting from a weak yen and a strong industrial base. Chinese equities were also positive, driven by the real estate and communication services sectors, despite weak industrial production data.

The Fund underperformed the benchmark in June due to its focus on smaller stocks within the investment universe. Larger stocks outperformed, especially in the US, during the month. These stocks are now valued at highly attractive discounts to larger companies, which gives confidence that they will deliver strong performance as the global economy recovers.

SoftwareOne is a Swiss software reseller and cloud service provider to small and medium-sized businesses in more than 70 countries. The position was established in the third quarter of last year when the weak share price reflected investor concerns about the company's margin profile. A new CFO has joined the business and helped establish credibility amongst investors. The business is now growing again, and margins are improving. Bain Capital noticed this and has made an indicative offer to buy the business. The founding families, who own 29.1% of the business, rejected the offer, believing that it undervalues the company. The Fund supports this position and continues to maintain its holding, believing it likely that Bain will make a higher offer. If this does not materialise, the stock remains attractive on a free cash flow basis, and the fundamentals continue to improve.

Dino Polska is a Polish retail chain of mid-size discount grocery stores and distribution centres. The stock contributed to relative returns when it outperformed the market in June, extending a long period of strong performance. The company has exploited what had been an immature retail market in Poland. It has rolled out modern western-European style stores with effective supply chains that delivered discounts to shoppers in excess of 20% compared to traditional grocery stores. This has enabled it to grow revenues by 20%-30%, delivering strong returns on equity for more than a decade.

Concentrix, a US-based customer relationship management business, underperformed the market in June largely because of concerns about artificial intelligence (AI) negatively impacting the business. This is unjustified as large players in the industry, like Concentrix, can afford to invest in AI solutions and have the opportunity to grow earnings over time. The adoption of AI should be viewed as a long-term opportunity, not a near-term threat. The stock is currently valued at a distressed multiple of just seven times its earnings. The Fund's recent holding in Majorel, a comparable business, was trading at a similar multiple before being acquired at a significant premium. Concentrix may well benefit from a similar approach given the current valuation and attractive cash flow dynamics of the business.

Orion Engineered Carbons is a global specialty chemical business that produces carbon black, which is used in tyre production and other specialty products. The stock outperformed strongly in the second half of 2022 and at the start of this year. However, it underperformed upon weakness in the chemicals sector, leading the Fund to reduce its position as it realised profits.

During June, the Fund established a position in Moonpig; founded in 2000, it is the dominant online greeting card company in the UK and Netherlands. Rather than generic e-mailed cards, the company handwrites real cards and delivers them. This creates an authentic experience with ease of use for customers. Recurring revenue is high, with over 86% of revenue coming from prior customers. Its shares underperformed the market post-pandemic, as investors grew more cautious towards internet-focussed businesses. However, Moonpig's results have proved resilient, gaining a market share in excess of 70% and a large customer base that is recurring by nature. When the Fund began to establish a position, it was valued at seven times EBITDA and 10 times earnings. Historically, the business has delivered 20% earnings growth, despite some volatility around Covid. It is expected to continue to grow over the long-term.

The Fund also established a position in Morinaga which is one of the oldest and largest confectionery companies in Japan. The company has an excellent position in food manufacturing in Japan, which represents 88% of its sales. The remainder comes from its Hi-Chew brand in the US, which is growing by taking advantage of its strong, increasingly global brand. There are two strong drivers of expected future returns. Firstly, the business's margin profile has been somewhat masked by an accounting change in 2021 and inflation in 2022. Currently, the company has pushed through pricing increases, which should deliver strong margins and earnings in 2023. Secondly, the company has significantly improved capital allocation over the last few years. It has reduced cross-shareholdings and has been buying back stock. The stock is trading at an estimated 8 times EBIT and 11 times earnings. This is a highly attractive entry level for a dominant brand that can grow earnings and whose management team is focussed on improving returns to shareholders.

FEATURES

APIR CODE	PCL0022AU
REDEMPTION PRICE	A$ 1.4768
FEES *	Management Fee: 1.1% Performance Fee: 20.5%
MINIMUM INITIAL INVESTMENT	A$10,000
FUM AT MONTH END	A$ 142.47m
STRATEGY INCEPTION DATE	1 April 2015
BENCHMARK	MSCI All Country World SMID Cap Index unhedged in AUD

FUND MANAGERS

Jon Moog
CIO and Portfolio Manager

David Li
Head of Research and Portfolio Manager

1. Net performance figures are shown after all fees and expenses, and assume reinvestment of distributions. 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 April 2015.
3. Annualised standard deviation since inception.
4. Relative to MSCI All Country World SMID Cap index unhedged in AUD.
* For further information regarding fees please see the PDS available on our website.

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PENGANA CAPITAL LIMITED

ABN 30 103 800 568

AFSL 226566

CLIENT SERVICE

T: +61 2 8524 9900

F: +61 2 8524 9901

E: clientservice@pengana.com

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PENGANA.COM