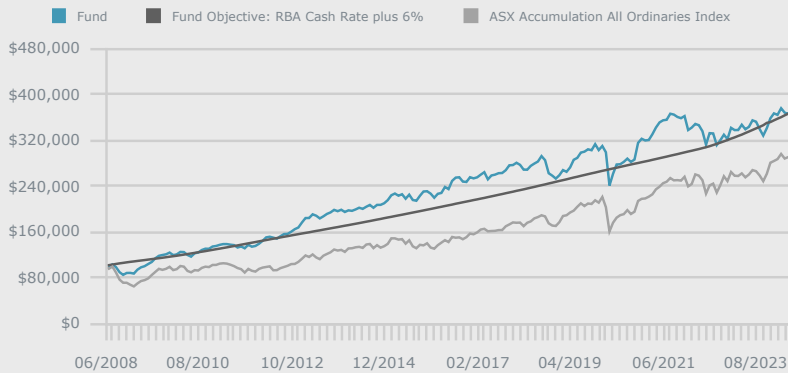


PENGANA AUSTRALIAN EQUITIES FUND
DESCRIPTION

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 30 Jun 2024¹

| | 1 MTH | 1 YEAR | 3 YEARS P.A. | 5 YEARS P.A. | 10 YEARS P.A. | SINCE INCEPTION P.A. |
|---------------------------------------|-------|--------|--------------|--------------|---------------|----------------------|
| Australian Equities Fund | 1.9% | 8.6% | 1.7% | 5.2% | 6.4% | 8.6% |
| Fund Objective: RBA Cash Rate plus 6% | 0.8% | 10.2% | 8.4% | 7.6% | 7.7% | 8.5% |
| ASX Accumulation All Ordinaries Index | 0.7% | 12.5% | 6.1% | 7.6% | 8.3% | 6.9% |

PERFORMANCE CHART
NET PERFORMANCE SINCE INCEPTION²

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 | 10.8% |
| Consumer Staples | 9.3% |
| Financials | 22.8% |
| Health Care | 14.3% |
| Industrials | 6.8% |
| Materials | 11.6% |
| Real Estate | 2.6% |
| Communication Services | 6.8% |
| Utilities | 3.2% |
| Cash | 11.8% |

CAPITALISATION BREAKDOWN

| | |
|----------------|-------|
| ASX 1-50 | 50.3% |
| ASX 51-100 | 15.5% |
| ASX 101-300 | 8.9% |
| All Ordinaries | 5.7% |
| Non ASX | 7.8% |
| Cash | 11.8% |

CUSTOM SECTOR BREAKDOWN

| | |
|------------------------|-------|
| Defensive | 49.4% |
| Financials | 19.3% |
| Consumer Discretionary | 11.1% |
| Resources | 8.4% |
| Cash | 11.8% |

STATISTICAL DATA
VOLATILITY³ 11.4%

NUMBER OF STOCKS 27

BETA⁴ 0.63

MAXIMUM DRAW DOWN -23.1%

STRONG FINISH TO A VOLATILE FINANCIAL YEAR

COMMENTARY

- The Fund generated a +1.9% return in June and +4.1% 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 and +5.0% for the half, whilst the Australian stock market returned +0.7% in June and +4.2% for the half.
- For the 2023/24 financial year, the Fund's total return equated to +8.6%, compared to the market return of +12.5%, and a cash rate plus 6% return of +10.2%.

Despite the recent rising interest rate environment, we remain confident in the strategy, which, **over the sixteen years since inception, has delivered a superior outcome for our investors of +8.6% p.a.** after all fees and charges. This exceeded our stated objective of the RBA cash rate plus 6% benchmark return (8.5%) over the same period, remembering that the RBA Cash rate represents a useful proxy for domestic inflation with a 6% premium for equity risk. Importantly this was achieved against the backdrop of a volatile market which generated significantly less at +6.9%pa over the same period.

We are cognisant of the Fund's comfortably positive but more subdued performance of late. However, we remain convinced that the negative impacts from central bank experiments with quantitative easing, deeply negative real interest rates and ever expanding fiscal deficits are still to play out. Importantly, while we may not be in the final innings of this monetary super cycle, our caution around the combination of investors pursuing the "next best thing" with surplus liquidity, heightened geopolitical risks, the mismatch between commercial property capitalisation rates and borrowing costs and the potential for persistent inflation has heightened our focus on capital preservation. It is at times like these that a focus on strong business models, backed by healthy cash generation and stewarded by competent management comes to the fore.

The year to June 2024 saw Financials as the heavyweight contributors to the domestic market. Making up almost a third of our market while generating a +30% total return, this sector bolstered overall returns (over 70% of the total market's performance) for the year. Although arrears/bad debt experience continues to be muted, and funding costs have been stable, credit growth has barely covered higher operating costs. Consequently, the capital growth has been driven by PE expansion rather than earnings growth. Consumer discretionary stocks (driven predominately by Wesfarmers and Aristocrat) and REITS were the next largest contributors to the market performance. Technology stocks were also strong but constitute a far smaller benchmark weighting relative to the tech-dominated offshore markets. Materials (Woodside), Telcos (Telstra), and Staples (Woolworths) were amongst the more notable detractors for the market during the financial year.

For the Fund, **NAB** was the largest positive contributor for the year, with **CBA** also in the top 5. **SG Fleet** and **Super Retail Group** continued their strong positive contributions as did new entrant **CSR** following its takeout toward the end of the period. The main detractors during the year were **Ryman Healthcare**, **Telstra**, **Credit Corp**, and **Woolworths**.

SG Fleet was one of our largest positive contributors generating a return of over 50% for the year. The company has enjoyed solid earnings momentum driven by ongoing strength in the used car market and tailwinds in its leasing business, particularly around government incentives associated with electric vehicle policies. The earnings momentum is likely to be resilient as a sharp increase in new motor vehicle supply continues to lag robust demand from both commercial fleet operators and consumers. Remember that the Australian car industry has been in

chronically short supply for several years resulting in an unusually aged national fleet. Consequently, and despite the strong share price performance over FY24, it continues to offer a very attractive “after tax free cash flow yield” which translates into strong fully franked dividends.

The Fund enjoyed another year of strong contributions from our holdings in the discretionary retail space, in particular **Super Retail Group**, but also **JB Hi Fi** and **Accent Group**. We believe the market had been too bearish on these names over the past couple of years, with the long awaited consumer crunch only showing signs of materialising in recent months. Each of these retailers in our view are much stronger businesses post COVID than they were before, and whilst we have always factored in a normalisation of earnings, valuations remain attractive. We have taken steps to reduce our exposure to this space over the past 6 months given the combination of higher share prices, increasing consumer headwinds and inflationary cost pressures. We nonetheless continue to see value in the space and believe each of the operators represent high quality retailers with exceptionally strong balance sheets and resilient high single digit cashflow yields.

The thematic around a structural shortage of housing – a key element of the James Hardie investment thesis that contributed to the Fund’s performance in FY23 – became just as great an issue in Australia as it had been previously in the United States. Through **CSR**, we were able to identify exposure to a portfolio of leading building products in Australia, as well as a vast property portfolio, that we were able to accumulate at attractive valuation levels. Whilst our investment thesis was not predicated on CSR as an M&A target, it became clear that the French corporate Saint-Gobain was similarly attracted to the CSR portfolio, and its offer to take over the company provided a crystallisation of the valuation upside that we had envisaged, over a much shorter period of time.

Ryman Healthcare was the main detractor for the Fund in FY24, continuing to navigate its way through a substantial development pipeline amidst rising interest rates and a challenging property market environment. The challenge for our holding is that whilst we believe the shares to be undervalued at current levels, its asset portfolio is characterised by long dated returns, meaning even substantial improvements applied now can take a period of time to work their way into cash returns. We have been encouraged by the renewal at both management and board level, and that our strong feedback around focusing on cash generation and a more pragmatic perspective of returns on invested capital have been adopted by the board, and incorporated into managements KPI’s. The shares have responded well in July, up by more than 30% month to date. We nonetheless continue to monitor our holding closely.

Telstra continues to be a mainstay for the Fund although it was a detractor from performance over the past financial year. Telstra’s earnings momentum remains solid, in particular, the core mobile division and the inflation linked recurring NBN income stream (combined >85% of total valuation). However, the stock suffered from two key announcements from management during the year, which though we expect will ultimately prove rational, were taken poorly by the market in the shorter term. Firstly, management’s decision not to monetise part of the infrastructure business disappointed elements of the investor base that were relying on M&A to unlock value via a partial break-up of the business. The surging demand for data and connectivity associated with the rise in AI has convinced management to capture value through further investment rather than divestiture. We believe this strategy has considerable merit, and continue to monitor their execution.

Secondly, during May management announced its intention to remove the annual CPI linked price increase mechanism in its mobile contracts, alarming investors given what appeared to be the removal of a key driver of medium term mobile earnings growth. Our consideration of the second step logic implications and an assessment of the broader competitive landscape has led us to believe that (contrary to most broker reports) Telstra was instead removing the transparency on its pricing strategy, forcing its competitors into a vacuum on their marketing strategies. This strategic move was validated by recent competitor price increases creating the desired environment for Telstra to once again lift its prices to achieve a favourable outcome. It is worth noting that Telstra already generates high single digit return on investment for its Mobile business, in sharp contrast to the low single digits by its competitors. Our view remains that in order for domestic governments, corporates and consumers to enjoy a

robust, reliable and secure telecoms industry, providers of these services will need a better return on investment to make the required investments.

With clarity now restored on the outlook for pricing, Telstra shares are trading c15% above lows following the May announcement, with most of that gain playing out post balance date in July.

Notable new additions to the portfolio during the year were positions established in **Stockland Group** and **CSR** (housing shortage thematic), and **Endeavour Group** (leading staple like beverage retailer with substantial value to unlock in its Hotel portfolio). The Fund actively traded around **Amcor** (capitalising on oversold well managed global packaging giant) and **Resmed** (irrational market reaction to GLP-1 thematic). The Fund exited positions in **James Hardie** (on valuation), and **CSR** (take out), trading around **Amcor** proved profitable, whilst positions in the banks (**NAB** and **CBA**), and retailers (**Super Retail**, **Accent Group**) saw active profit taking with positions managed down to reflect valuation levels and a changing earnings outlook.

In terms of positioning going forward, despite the economy remaining stronger for longer than many had anticipated we continue to retain a level of caution in our outlook for FY25. We have worked hard to improve the liquidity of the Fund and retained a focus on well managed defensive cash generators. Cash levels continue to remain healthy at c10% providing us with stability and downside protection, a decent positive return given elevated cash rates, and the capacity to invest when we assess the time is right. At June 30 the Fund had no active put options in the portfolio, and whilst they remain an option for downside protection, we view our cash holdings and defensive investments as playing a more meaningful defensive role in the near term.

We continue to invest with a view that interest rates will remain elevated for the foreseeable future. Our view is based on the premise that inflation, whilst off its peak, is likely to remain elevated throughout 2024 and into 2025. Whilst some of the original imported inflationary forces have waned, domestically driven forces remain very much at play (high levels of employment/wage growth, elevated migration, services inflation, and an ongoing lagged recovery of cost pressures from FY24). As such, it is difficult for us to see downside to the RBA cash rate so long as our inflation outlook is at or around the 4% mark.

The shift in the market environment in recent periods, from one driven by virtually free money and near zero discount rates, to a more normal level of interest rates in our view resulted in more rational valuations over the past 18 months. We believe the relative valuation appeal has shifted from business models that generate a significant portion of their profits/cash flows in the future, back towards those that are generating profits/cash flows today. Such a dynamic is better aligned with our strategy and positioning, and we look forward to the underlying cash flows of our investments asserting themselves on valuations 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\$ 1.848 |
| FEES * | Management Fee: 1.025% Performance Fee: 10.25% |
| MINIMUM INITIAL INVESTMENT | A\$10,000 |
| FUM AT MONTH END | A\$ 562.96m |
| 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



Mark Christensen
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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