MONTHLY REPORT
SEPTEMBER 2022

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
11.6%	26	0.63	-23.1%

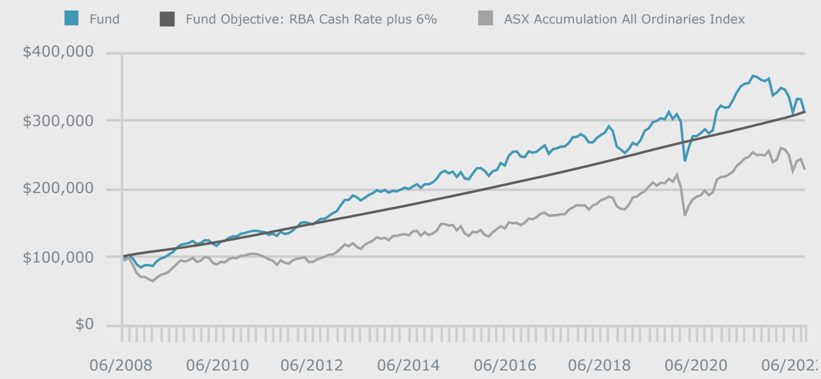
PERFORMANCE TABLE

NET PERFORMANCE FOR PERIODS ENDING 30 Sep 2022[1]

	1 MTH	1 YEAR	3 YEARS P.A.	5 YEARS P.A.	10 YEARS P.A.	SINCE INCEPTION P.A.
Australian Equities Fund	-6.1%	-14.6%	0.8%	3.5%	7.2%	8.3%
Fund Objective: RBA Cash Rate plus 6%	0.7%	6.6%	6.4%	6.8%	7.5%	8.3%
ASX Accumulation All Ordinaries Index	-6.4%	-8.6%	3.1%	7.1%	8.6%	5.9%

PERFORMANCE CHART

NET PERFORMANCE SINCE INCEPTION[2]



TOP HOLDINGS (ALPHABETICALLY)

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

SECTOR BREAKDOWN

Consumer Discretionary	9.9%
Consumer Staples	4.4%
Financials	26.2%
Health Care	15.5%
Industrials	5.6%
Materials	12.8%
Real Estate	3.2%
Communication Services	7.1%
Utilities	2.4%
Options	0.4%
Cash	12.7%

CAPITALISATION BREAKDOWN

ASX 1-50	57.6%
ASX 51-100	3%
ASX 101-300	15%
All Ordinaries	5.4%
Non ASX	5.9%
Derivatives	0.4%
Cash	12.7%

CUSTOM SECTOR BREAKDOWN

Defensive	47.5%
Financials	24.2%
Consumer Discretionary	8%
Resources	7.2%
Options	0.4%
Cash	12.7%

VOLATILITY REMAINS HIGH, REFLECTING THE RANGE OF DISPARATE SCENARIOS FOR ECONOMIC GROWTH FACING GLOBAL INVESTORS

COMMENTARY

The Fund generated a -6.1% return in the month of September, and -0.2% for the September quarter. By way of comparison, the (annual) return of the RBA cash rate plus 6% equated to approximately +0.65% for the month (+1.9% for the quarter), whilst the Australian stock market declined by -6.4% in September and grew +0.8% for the quarter.

After a strong start to the financial year, markets gave back the majority of gains in September as rate expectations reset over the month. Materials and Energy stocks once again out-performed (less negative than the market), whilst the more interest rate sensitive IT, Utilities and REITS sectors performed the worst, and the Australian dollar depreciated significantly during the quarter to now trade below 64c.

The main contributors to the Fund's performance in the quarter were CSL, Resmed, NAB and Super Retail Group. Detractors included the premium paid on put options, Credit Corp, Smart Group and Evolution Mining. From a trading activity perspective, the Fund was opportunistic in adding to positions in James Hardy and JB HiFi, whilst disposals focused on taking profits and managing position sizes in Telstra, CSL, NAB and Amcor.

Below is a recording of our recent webinar where CIO and Portfolio Manager Rhett Kessler provides performance, portfolio, and stock-specific updates for the Fund. Financial planners may also complete a short questionnaire available HERE for CPD points.

With roughly 30% of the portfolio exposed to USD earnings, the Fund should benefit from the translation of these earnings at current spot rates. Having said that, we monitor other holdings that import goods and materials in USD and will see ongoing input cost inflation as a result.

When we consider the current back drop for investing in equity markets, we feel it is no longer appropriate to talk of the 'pending impact' of the various macroeconomic headwinds. Rather we consider the cycle has now well and truly turned. *Inflation has arrived* following an extended period of stimulus induced demand and in more recent times widespread supply chain constraints. The *Cheap Money Party* is over as central banks around the world lift rates from emergency settings to combat inflation, whilst simultaneously withdrawing QE. *Geopolitical risks remain elevated* – instability continues in Eastern Europe whilst US/China relations remain in the spotlight. *Forecast risk is high* given the wide variations in possible scenarios COVID has introduced. On the positive side however, v*aluations have rebased*, and opportunities to deploy cash are emerging.

From a portfolio perspective, in summising our broad positioning, we consider 4 main 'buckets' which together account for over 50% over the Fund.

1. Healthcare (c23% of portfolio). Includes i) private health insurers NIB and Medibank, who are enjoying lower claims, higher participation in PHI and great returns on investment floats; ii) CSL and its geographically and currency diversified suite of economically insensitive products; and iii) Resmed, a leading player in a growth market with only major competitors on the sidelines.
2. Banks (c15%). Includes best in class banking franchises NAB (business banking), CBA (residential lending), and Macquarie (Global Infrastructure/Asset Management). In contrast to global peers, the Australian banks benefit from a low cost funding position and strong pricing power and distribution platforms.
3. Telstra (c7%). Australia's largest mobile telecommunication network, with key earnings streams linked to CPI and valuation underpinned by vital telecommunication infrastructure.
4. FMCG staples (c8%). Largely Woolworths and Amcor. Stable predictable "toothpaste and toilet paper" type demand dynamics, with strong pricing power and, in the case of Amcor, improved balance of power from concentration of services to specific areas.

In addition to these exposures, we have been active in engaging downside protection via put options throughout the quarter – at 30 September put options covered around 4% of the portfolio but were as high as 10% during the quarter. Reflective of the challenging macro environment, our bottom up process has resulted in a rising cash level throughout the quarter, reaching almost 13% at the end of September. Cash continues to provide a low risk income producing option to take advantage of future opportunities.

Despite an elevated level of volatility in markets, 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$ 1.6687
FEES *	Management Fee: 1.025% Performance Fee: 10.25%
MINIMUM INITIAL INVESTMENT	A$10,000
FUM AT MONTH END	A$ 734.15m
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. No allowance has been made for buy/sell spreads. 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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