

PENGANA HIGH CONVICTION EQUITIES FUND
DESCRIPTION

The Pengana High Conviction Equities Fund (the Fund) invests globally in a concentrated portfolio of up to 20 stocks. The Fund can invest in both small and large cap stocks and is diversified across countries and sectors. We avoid investment in companies that are currently, in our opinion, unnecessarily harmful to people, animals or the environment.

STATISTICAL DATA
VOLATILITY³ 25.1%

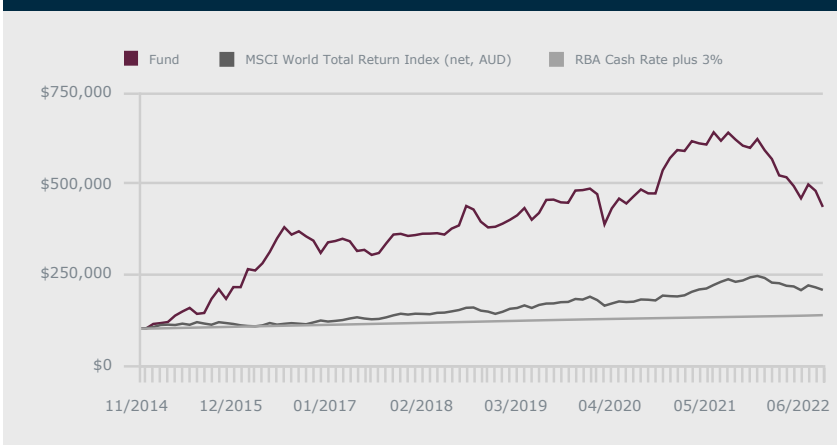
NUMBER OF STOCKS 15

BETA⁴ 0.62

MAXIMUM DRAW DOWN -32.1%

PERFORMANCE TABLE
NET PERFORMANCE FOR PERIODS ENDING 30 Sep 2022¹

	1 MTH	1 YEAR	2 YEARS P.A.	3 YEARS P.A.	5 YEARS P.A.	SINCE INCEPTION P.A.
High Conviction Equities Fund Class A	-9.2%	-29.9%	-4.0%	-0.9%	5.4%	20.7%
MSCI World Total Return Index (net, AUD)	-3.3%	-9.7%	7.4%	6.2%	9.6%	9.8%
RBA Cash Rate plus 3%	0.4%	3.6%	3.3%	3.4%	3.8%	4.2%

PERFORMANCE CHART
NET PERFORMANCE SINCE INCEPTION²

TOP HOLDINGS (ALPHABETICALLY)

Ciena Corp	Information Technology
Eckert & Ziegler Strahlen- und	Health Care
Lumentum	Information Technology
Telix Pharmaceuticals Ltd	Health Care
Tenet Healthcare Corp	Health Care

SECTOR BREAKDOWN

Consumer Discretionary	4.4%
Health Care	41.5%
Industrials	5.4%
Information Technology	17%
Materials	5.2%
Real Estate	2.5%
Communication Services	5.1%
Cash	18.9%

CAPITALISATION BREAKDOWN

Under 5bn USD	63.1%
In between 5bn - 10bn USD	12.9%
In between 10bn - 100bn USD	5.1%
Cash	18.9%

REGION BREAKDOWN

North America	31.9%
Europe ex-UK	10%
Australia/New Zealand	30%
Middle East / Africa	9.2%
Cash	18.9%

FUND UPDATE AND A NEW HEALTHCARE HOLDING

COMMENTARY

The Fund fell -9.2% in September as rising inflation and bond yields continue to roil markets. Although there are signs of cooling prices in many areas such as commodities, transport, property and autos, labour markets still remain tight and wage growth continues in the US, but even this holdout seems likely to roll over in the next few months.

The Fund currently has 18% in cash, which we are using to selectively add to holdings which have fallen, as well as establish new positions. Our cash was held in US dollars, but we have been increasing our Australian dollar exposure as the Australian dollar falls, and the Fund now has equal amounts in both US and Australian dollars. Healthcare currently stands at 42% of the Fund's assets and only two holdings, representing 10% of the Fund, have net debt.

The largest holding in the Fund, **Telix Pharmaceutical**, fell 24% after withdrawing its European application for the company's lead product Illucix, which is used to diagnose prostate cancer. We took this opportunity to buy back shares we sold when the share price was \$7-\$8 in August, for approximately \$4.7 per share. Illucix' price in Europe was expected to be about USD1000 compared to USD4700 in the USA, so Europe is a much less important market than the US. We expect the company to gather more data, which may take several weeks, and resubmit the application, which could still be approved in 12-18 months. We believe the quarterly revenue update to be released at the end of October will highlight the rapid growth of Illucix in the US where it received reimbursement on the 1st of July. We also expect phase 3 results of its Renal cancer diagnostic in October, which will substantially grow the company's revenue in 2024 if successful. The investment represents 14.5% of the Fund's assets.

During the month we added a new healthcare position in US and Australian listed **Opthea Ltd**. The company has a market value of USD300mln with approximately USD150mln of cash, and commitments of another USD70mln due over the next 14 months. The company is currently running two global Phase 3 studies for its lead drug OPT-302 to treat Wet Age-related Macular Degeneration (Wet AMD) which is the leading cause of irreversible blindness in adults over 50, affecting 170 million people worldwide including 11 million in the USA. In phase 2 studies, the drug gave patients an extra 5 letters of visual acuity in an eye examination (think of five letters on an eye chart), which is highly significant. The principal investigator of the trial is a highly respected ophthalmic surgeon Professor Tim Wilson, consultant at King's College in London. Given the global Wet AMD market is currently about USD10billion and forecast to rise substantially we see the potential for more than USD1bn of revenue, if the drug is successful. Pleasingly the drug will work in combination with existing therapies such as Lucentis, Eylea and Vabysmo, so called VEGF A and B inhibitors, so is not in direct competition with these products. The results are due in mid-2024 however we would expect the share price to rise well ahead of that time.

We also increased our holding in US-listed **Tenant Healthcare**, which operates hospitals and day surgery centres. The shares have been impacted by rising nursing care costs, a cyber-attack, and covid related surgical delays, all of which will wain as the year progresses. The company has a market cap of USD5.8bn and USD13.5bn of debt, all of which is fixed rate with only USD1.4bn maturing before 2026. We like the company's very strong operating cash flow generation of USD3bn per annum, which is partially used to pay interest expense of USD900mln per annum and capital spending of USD750mln per annum, but still leaving substantial free cash flow of more than USD1bn per annum, which will grow in time as interest costs decline. More than half of the cash flow is derived from faster growing day surgery centres, which can treat patients at a lower cost than hospitals.

US Software company **Walkme** fell 23% during September. The company had risen post its quarterly update in August primarily as it announced its intention to be free cash flow positive in 2023. However, in September the CFO left to join another start up. This, along with a broader selloff in tech names, was the main cause for the decline.

Other detractors in the period, which fell on little news, were USD optical equipment companies **Ciena** and **Lumentum** (down 15% and 12%), **Spotify** (-15%), and **Ardent Leisure** (-15%).





WEBINAR

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HIGH CONVICTION
STOCKS**

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TUES, NOV 15 2022 9:00AM (AEDT)

FEATURES	
APIR CODE	HHA0020AU
REDEMPTION PRICE	A\$ 0.8452
FEES *	Management Fee: 1.80% p.a. (Class A) 1.25% p.a. (Class B) Performance Fee: 15.38% (Class A) 20% (Class B)
MINIMUM INITIAL INVESTMENT	A\$10,000
FUM AT MONTH END	A\$ 34.72m
STRATEGY INCEPTION DATE	11 December 2014
BENCHMARK	RBA Cash Rate + 3%

FUND MANAGERS	
	James McDonald Portfolio Manager
	Jeremy Bendeich Portfolio Manager

1. Net performance figures are shown are those of Class A Units, 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 11 December 2014.
 3. Annualised standard deviation since inception.
 4. Relative to MSCI World. Using daily returns.
- * For further information regarding fees please see the PDS available on our website.

PENGANA HIGH CONVICTION EQUITIES FUND

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



PENGANA.COM

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