

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

VOLATILITY³ 12.9%

NUMBER OF STOCKS 41

BETA⁴ 0.73

MAXIMUM DRAW DOWN -29.1%

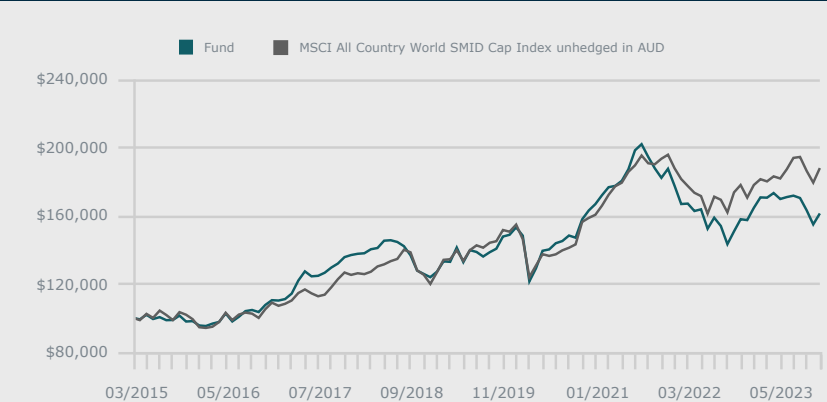
PERFORMANCE TABLE

NET PERFORMANCE FOR PERIODS ENDING 30 Nov 2023¹

	1 MTH	1 YEAR	2 YEARS P.A.	3 YEARS P.A.	5 YEARS P.A.	SINCE INCEPTION P.A.
Global Small Companies Fund	4.2%	2.2%	-5.9%	0.7%	5.1%	5.7%
MSCI All Country World SMID Cap Index unhedged in AUD	4.8%	5.6%	-1.4%	6.3%	8.4%	7.6%

PERFORMANCE CHART

NET PERFORMANCE SINCE INCEPTION²



TOP HOLDINGS (ALPHABETICALLY)

Concentrix Corp	Industrials
DCC PLC	Industrials
Sendas Distribuidora	Consumer Staples
Softwareone Holding AG	Information Technology
TechnoPro Holdings Inc	Industrials

CAPITALISATION BREAKDOWN

Under 2bn USD	41.5%
In between 2bn - 5bn USD	31.8%
Above 5bn USD	21.2%
Cash	5.5%

REGION BREAKDOWN

Europe ex UK	26.9%
North America	17.5%
Asia ex Japan	4%
Japan	13.9%
UK	22.7%
Middle East / Africa	1.9%
Latin America	7.7%
Cash	5.5%

GLOBAL EQUITY MARKETS STRENGTHENED

COMMENTARY

- Global equity markets strengthened in November as falling inflation across developed markets raised hopes of lower interest rates.
- The prospect of interest rate cuts should begin to close the steep discount in market valuations of small-cap stocks.
- The Fund returned 4.2% in November, while the benchmark returned 4.8%.

Market Commentary

Global share markets strengthened in November, as investors pivoted towards expectations that central banks have now finished raising interest rates and will begin cutting rates next year. The change in sentiment was driven by signs of economic moderation in the US and falling inflation across developed markets. Bloomberg reported that by the end of November, investors were pricing in an 80% chance of a 0.50% rate cut (i.e. two 0.25% cuts) by the US Federal Reserve (Fed) by mid-2024.

US core inflation cooled to 4.0% in November, suggesting that the Fed's tightening has worked. Further supporting the conviction that interest rates have now peaked are signs that the US economy is cooling. Credit card delinquencies continued to increase, while retail spending slowed in October. Investors focussed on the impact of lower interest rates rather than economic slowdown, as the smaller company Russell 2000 returned 4.5% in US dollar terms.

In Europe, both goods and services inflation eased. The UK saw core inflation falling to 5.7%, and the Eurozone, to just 3.6%. While inflation trends were similar across Europe, purchasing managers' index (PMI) data were mixed. In the UK, the composite PMI crossed over the 50.0 level which indicates a move into economic expansion. However, in the Eurozone, while the composite PMI rose from its October low, the figure remained consistent with economic contraction. Data from Germany and France were quite weak compared to the rest of Europe.

While inflation has been a headwind for the Western economies, it has been regarded more positively in Japan. The country has been struggling with disinflation for decades, but companies are now able to raise prices in excess of cost inflation, driving both sales and profit growth. Moreover, gradual reforms to corporate governance which have been driven by the Tokyo Stock Exchange will encourage companies to improve capital efficiency, helping drive equity returns.

China continues to face macro-economic challenges as its economic growth continues to slow, deflationary pressures emerge and its highly leveraged property market remains in crisis. Local government debt continues to rise, adding to financial concerns, while geopolitical tensions further complicate the situation. The Beijing government has implemented measures to stimulate the economy, although the overall economic outlook remains uncertain.

Portfolio Highlights

The prospect of major central banks eventually being able to reduce interest rates should finally bring a glimmer of hope to small-cap investors after enduring a challenging period. This potential shift in monetary policy is a significant positive for smaller companies, which have historically been more sensitive to changes in interest rates than larger stocks. The exact timing of small-cap outperformance relative to large caps in a declining interest rate environment is difficult to predict. However, historical data suggests a potential lag of three to six months before small caps begin to consistently outperform again.

The portfolio remains attractively valued, trading at a modest (by historic standards) 13.2 times its 2023 earnings. The Portfolio's return on equity is currently 27%, and analysts expect long-term double-digit earnings growth.

The fund made strong absolute gains in line with global equity markets during November. It benefitted from solid relative stock performance in industrials and consumer staples, but this was offset by its overweight exposure to the smaller end of the small cap spectrum, which underperformed.

US-based customer experience and business process outsourcing company **Concentrix** was the Fund's strongest contributor to relative returns in November. After a challenging 2023, the stock rallied sharply upon stronger earnings guidance which improved investor sentiment towards the company.

UK-based **Integrafin** provides a premium investment platform for financial advisors and their clients, specializing in wealth management solutions. It outperformed in November in line with the broader financials sector.

DCC is a leading propane distribution and support business based in Ireland. It outperformed after the company released its first-half-year earnings results, which showed positive signs of growth and improving margins.

The Fund established a position in the leading European web hosting provider **Ionos** which offers a diverse range of services. It holds a significant market share in the growing web hosting industry and is poised for continued expansion. It was spun out from United Internet in January 2023, to allow investors to access the high-quality web hosting business and to give its management team greater flexibility to grow the business.

Ionos is currently valued at a meaningful discount to industry peers. It is expected to continue progressing along its strong growth trajectory, with analysts predicting its cloud business revenue to grow by between 10% and 20% annually. The business also generates strong free cash flow, routinely converting 85% of its earnings into cash flow.

The Fund also established a new position in **Qualitas** during November. The company is the undisputed leader in the Mexican car insurance market and holds a commanding 30.1% share. Its market dominance provides significant advantages, including strong brand recognition, economies of scale, and a well-established distribution network.

Qualitas also benefits from a recurring revenue business model, high profitability, and strong free cash flow generation. The company also enjoys solid growth potential through under-penetration of the Mexican auto insurance market, making Qualitas a compelling investment opportunity. The stock is currently valued by the market at just 12.4 times 2024 earnings, although analysts expect the company to maintain a 16% annualised growth rate with industry-leading returns.

FEATURES

APIR CODE	PCL0022AU
REDEMPTION PRICE	A\$ 1.3758
FEES *	Management Fee: 1.1% Performance Fee: 20.5%
MINIMUM INITIAL INVESTMENT	A\$10,000
FUM AT MONTH END	A\$ 124.99m
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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