PENGANA
CAPITAL GROUP

MONTHLY REPORT
JANUARY 2023

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%	25	0.63	-23.1%

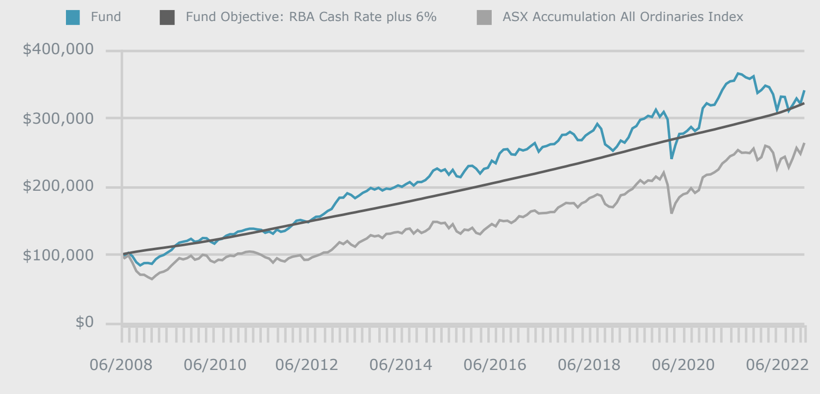
PERFORMANCE TABLE

NET PERFORMANCE FOR PERIODS ENDING 31 Jan 2023[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%	1.1%	3.3%	4.0%	6.9%	8.8%
Fund Objective: RBA Cash Rate plus 6%	0.8%	7.5%	6.6%	6.9%	7.5%	8.3%
ASX Accumulation All Ordinaries Index	6.4%	10.5%	6.4%	8.6%	8.9%	6.9%

PERFORMANCE CHART

NET PERFORMANCE SINCE INCEPTION[2]



TOP HOLDINGS (ALPHABETICALLY)

BHP Group Ltd	Materials
CBA	Financials
Credit Corp	Financials
CSL	Health Care
Evolution Mining	Materials
NAB	Financials
NIB Holdings	Financials
ResMed	Health Care
Telstra	Communication Services
Woolworths	Consumer Staples

SECTOR BREAKDOWN

Consumer Discretionary	11.5%
Consumer Staples	4.6%
Financials	26.2%
Health Care	14.4%
Industrials	3.4%
Materials	14.3%
Real Estate	1.4%
Communication Services	6.8%
Utilities	2.6%
Options	0.4%
Cash	14.4%

CAPITALISATION BREAKDOWN

ASX 1-50	55.3%
ASX 51-100	4.5%
ASX 101-300	15.2%
All Ordinaries	5.1%
Non ASX	5.1%
Derivatives	0.4%
Cash	14.4%

CUSTOM SECTOR BREAKDOWN

Defensive	43.6%
Financials	22.2%
Consumer Discretionary	10.1%
Resources	9.3%
Options	0.4%
Cash	14.4%

FUND IS OFF TO A STRONG START, CAUTIOUSLY POSITIONED AS WE HEAD INTO FEBRUARY REPORTING SEASON

COMMENTARY

The Fund generated a +6.1% return in January. By way of comparison, the (annual) return of the RBA cash rate + 6% equated to approximately +0.8% for the month, whilst the Australian stock market improved by +6.6%.

The positive performance from equity markets in January represented one of the strongest starts to a calendar year for the ASX on record. It aligned with broader strength in global indices as evidence emerged of inflation tapering earlier, and at a greater magnitude, than had been expected, fuelling investors' appetite for a market recovery following a more challenging 2022. We were surprised at the magnitude of January's gains, and find ourselves more cautious than it would appear the market is right now. That said, we were very pleased to be able to participate in the upside during the month, particularly given the defensive positioning of the portfolio, the elevated levels of cash on hand, and the impact of carrying put options in such a strong market.

The main positive contributors to performance in January were again our discretionary retail names – **Accent Group** and **Super Retail group**, both of which reported strong half-year trading updates ahead of their scheduled results later this month. **Ryman Healthcare**, a significant detractor in previous periods, recovered materially through January to contribute strongly to performance, whilst **Credit Corp** also began the year well, with further substantial gains experienced following half-year results in early February. Performance was broad-based during the month, with the only detractors being **Amcor** (that had performed well previously and was impacted by a weakening USD), and more significantly a reduction in the value of put options as the market moved higher. Cash holdings continued to gradually rise to finish at 14.5% by month end, largely a result of our focus on managing exposure to less liquid names in the portfolio.

February is reporting season again when the trickle of corporate information at other times of the year turns into a firehose for a 3-4 week period. For the Fund, the season has started well with positive early trading updates from Accent Group, Super Retail Group, and more recently Credit Corp, all surprising investors substantially on the upside. More broadly it's becoming clear that factors such as the impact of rising rates and inflation on household budgets, and rising cost pressures on corporate operating expenses, are yet to materialise in corporate earnings. However they continue to loom in the outlook period, and together with a still heavy influence from COVID on existing earnings (positive & negative), we think forecast risk remains high, creating scope for volatility in interpreting corporate updates.

We would note also that whilst the market has responded positively to what appears to be a peak in inflation, we continue to view the macro environment as a likely headwind for equity markets in the medium term. Inflation may have peaked, but remains elevated, and still well above central bank rates globally. As a result, we expect an elevated rate environment to continue for some time yet, as opposed to the more favourable 'easing' backdrop that has supported long-duration assets for much of the past 20+ years. We continue to position the portfolio with a view to navigate these challenges, ensuring exposure to business models with pricing power and low levels of price elasticity (to combat inflation) as well as those who benefit from a rising interest rate environment. In addition, our cash balance continues to rise from a low point in the prior year.

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$ 1.7981
FEES *	Management Fee: 1.025% Performance Fee: 10.25%
MINIMUM INITIAL INVESTMENT	A$10,000
FUM AT MONTH END	A$ 747.21m
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. 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.

PENGANA AUSTRALIAN 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 CAPITAL GROUP

PENGANA.COM