PENGANA CAPITAL GROUP

MONTHLY REPORT
JANUARY 2024

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
11.5%	24	0.63	-23.1%

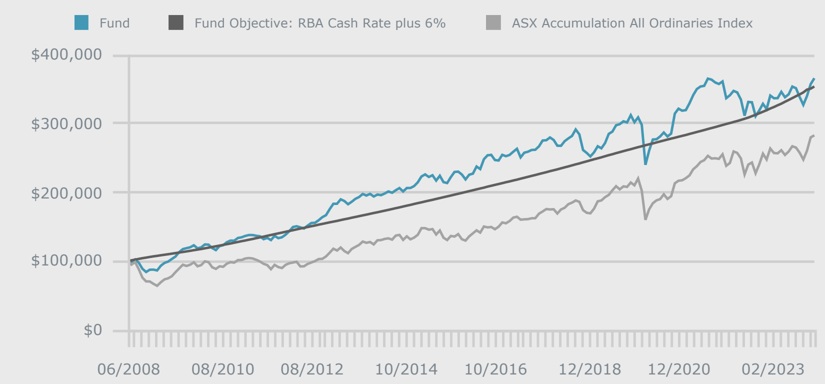
PERFORMANCE TABLE

NET PERFORMANCE FOR PERIODS ENDING 31 Jan 2024[1]

	1 MTH	1 YEAR	3 YEARS P.A.	5 YEARS P.A.	10 YEARS P.A.	SINCE INCEPTION P.A.
Australian Equities Fund	2.4%	7.4%	4.7%	7.2%	6.6%	8.7%
Fund Objective: RBA Cash Rate plus 6%	0.9%	9.9%	7.9%	7.4%	7.6%	8.4%
ASX Accumulation All Ordinaries Index	1.1%	7.3%	9.2%	10.0%	8.6%	6.9%

PERFORMANCE CHART

NET PERFORMANCE SINCE INCEPTION[2]



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	11.1%
Consumer Staples	6.7%
Financials	25.6%
Health Care	16.9%
Industrials	4%
Materials	12.2%
Real Estate	2.6%
Communication Services	7.2%
Utilities	3.5%
Cash	10.3%

CAPITALISATION BREAKDOWN

ASX 1-50	54.4%
ASX 51-100	13.2%
ASX 101-300	10.6%
All Ordinaries	4.9%
Non ASX	6.6%
Cash	10.3%

CUSTOM SECTOR BREAKDOWN

Defensive	51.4%
Financials	19.9%
Consumer Discretionary	10%
Resources	8.5%
Cash	10.3%

NAVIGATING VOLATILITY TO PRODUCE A POSITIVE START TO THE YEAR

COMMENTARY

The Fund generated a +2.4% return in January. By way of comparison, the Australian stock market rose by 1.1%, whilst the return of the RBA cash rate plus 6% equated to approximately +0.9% for the month. Financial year to date, the Fund has achieved a return of +6.9%, ahead of the cash plus 6% benchmark of +5.9% for the 7 months, and compared to the market's growth of 9.1% over the same period.

Whilst the headline market return was positive for January, intra month trading was significantly more volatile, with the index having declined by over 2.3% mid month, before rallying in the last 2 weeks to close up 1%. Encouragingly, despite the initial challenging trading conditions, the Fund's resilience prevailed, remaining in positive territory throughout, whilst still participating in the month end rally to outperform both the market and the cash plus 6% benchmark for the period.

The market started January on the back foot, with a sense of consolidation following consecutive strong months at the end of calendar 2023. A 6% fall in iron ore prices weighed on the index heavy materials space resulting in a somewhat rare (in recent times at least) period of underperformance from that sector during the month. A sharp re-pricing of Fed expectations provided stimulus from offshore – with current expectations for seven cuts to the Fed Funds rate by 1Q25 significantly higher than just two anticipated 3 months ago. Over the last 3 months, the yield on the US 10 year has declined by 100bps providing broad based tailwinds for equity investors. Domestically, inflation surprised on the downside, with headline CPI of 3.4% in December, moderating from the November print of 4.3%. The Australian market has now risen by over 13% in the last 3 months to close at all time highs.

Notable contributions to the Fund's performance during the month came from **Resmed** and **NIB Insurance** – two stocks that were a drag on performance in the first half of the fiscal year, but where we have been rewarded for maintaining our conviction. **CSL** was another solid contributor, having now almost fully recovered its losses from June 2023. The banks were strong contributors to the markets performance and the Fund benefited via its holdings in **NAB** and **CBA**. Detractors included **Evolution Mining**, which disappointingly reported ongoing operational issues at their Red Lake mine in Canada, and **BHP** following a decline in iron ore prices. The Fund added to positions in **Amcor** ahead of its generally positive update in early February and **Stockland Group** and took profits following strength across a broad range of stocks including **Super Retail Group**, **SG Fleet**, **NIB Insurance**, and **Credit Corp**.

We continue to believe that the Fund is well positioned to navigate the existing volatility and deliver on our objectives of cash plus 6% in the medium term, given its defensive positioning, solid balance sheets and focus on businesses generating cash now. Despite the overall strength in markets in recent months, by month end the portfolio was generating a cash yield of 6.6% for FY25 – which is to say if the companies we are invested in meet our forecasts, they will in aggregate generate an incremental 6.6% of the portfolio's value in free cash over the next 12 months. Together with earnings growth, capital returns, and potential for valuation uplift, this cash yield underpins our medium term investment objectives.

Thematically, whilst the headlines have been trending down, we expect inflation to continue to percolate through the global economy. Inflation may have peaked however we expect it to remain elevated and therefore see little scope for rate relief in the medium term. From a valuation perspective, this environment typically favours portfolios whose valuation is predominately focused on current earnings and cash flows (such as this Fund), as opposed to those whose valuations are more dependent on future earnings and cash flows. Our cash balance remains healthy and ready to deploy when future opportunities present.

As we enter corporate earnings season, 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$ 1.8175
FEES *	Management Fee: 1.025% Performance Fee: 10.25%
MINIMUM INITIAL INVESTMENT	A$10,000
FUM AT MONTH END	A$ 618.61m
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.

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