PENGANA
CAPITAL GROUP

MONTHLY REPORT
MARCH 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
11.5%	25	0.63	-23.1%

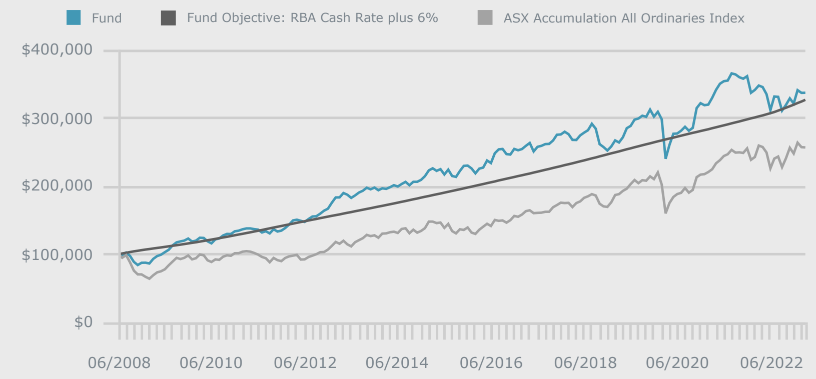
PERFORMANCE TABLE

NET PERFORMANCE FOR PERIODS ENDING 31 Mar 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	0.0%	-3.0%	12.0%	4.7%	6.3%	8.6%
Fund Objective: RBA Cash Rate plus 6%	0.8%	8.0%	6.8%	7.0%	7.5%	8.4%
ASX Accumulation All Ordinaries Index	-0.2%	-1.1%	17.3%	8.8%	8.3%	6.6%

PERFORMANCE CHART

NET PERFORMANCE SINCE INCEPTION[2]



TOP HOLDINGS (ALPHABETICALLY)

Aristocrat Leisure	Consumer Discretionary
BHP Group Ltd	Materials
CBA	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	11.6%
Consumer Staples	5.4%
Financials	25.3%
Health Care	14.5%
Industrials	3.6%
Materials	15%
Real Estate	0.6%
Communication Services	6.9%
Utilities	2.8%
Options	0.4%
Cash	13.9%

CAPITALISATION BREAKDOWN

ASX 1-50	55.2%
ASX 51-100	10.1%
ASX 101-300	9.8%
All Ordinaries	5.1%
Non ASX	5.5%
Derivatives	0.4%
Cash	13.9%

CUSTOM SECTOR BREAKDOWN

Defensive	45.1%
Financials	20.8%
Consumer Discretionary	10.1%
Resources	9.7%
Options	0.4%
Cash	13.9%

DEFENSIVE POSITIONING PAYING DIVIDENDS, CASH RESERVES ANTICIPATING OPPORTUNITIES

COMMENTARY

The Fund generated a 4.9% return in the March quarter. By way of comparison, the Australian stock market grew by +3.6%, whilst the (annual) return of the RBA cash rate plus 6% equated to approximately +2.2% for the quarter. For the month of March, the Fund was flat, compared to a market decline of -0.2%, and cash plus 6% of +0.8%. Following actions taken to address performance in calendar 2022, we are pleased with the Fund's performance in the first quarter of calendar 2023 – in particular its ability to have participated in the upside of January (despite its more cautious positioning) whilst also proving its resilience in a more challenging February and March.

A broadly flat overall market result for March covers up what was in fact a more volatile period of trading. The market fell by over 4% mid month before staging a fairly rapid recovery in the last 10 days. The Fund's defensive characteristics provided a more resilient performance throughout the month, with a low at -2.8% in the period (compared to >-4% for market), and finishing the month slightly ahead of the market, despite the latter benefitting once again from an outsized positive contribution from the materials sector.

Cash holdings declined to 13.7% over the month as we actively deployed capital into the initial market weakness. Despite the net investment, cash holdings remain elevated relative to levels over the past 12-18 months.

The market fell by over 4% mid month on the back of global banking system events before staging a fairly rapid recovery in the last 10 days, following the announcement of central bank support for the troubled banking sector, as well as a softer than expected inflation print. The latter led investors to consider the possibility of a pause in the rate hike cycle, and possibly a lower terminal rate than had previously been expected.

The Fund's defensive characteristics provided a more resilient performance throughout the month. The Fund's performance troughed at -2.8% in the period (compared to >-4% for market), and finished the month slightly ahead of the market, despite the latter benefitting once again from an outsized positive contribution from the materials sector (of which the Fund is significantly 'underweight'). Materials were the largest positive contributor to the market performance in March, contributing +145bps to the markets overall -20bps outcome.

The main positive contributors to the Fund's performance in March were **Evolution Mining** (benefiting from strength in the gold price), **BHP, Telstra and Accent Group**. The main detractors were **Credit Corp, National Australia Bank,** and **NIB Insurance**. Cash holdings declined to 13.7% over the month as we actively deployed capital into the initial market weakness, establishing a new position in **Metcash Limited**, and adding to existing positions in **JB Hifi, Macquarie Group, BHP,** and **NIB Insurance**, partially offset by trimming positions in **Accent Group, Telstra, Mirvac, and Aristocrat.** Despite the net investment, cash holdings remain elevated relative to levels over the past 12-18 months.

Economic data continues to be steady but suggests caution. Headline inflation rose 6.8% in February, still elevated but an improvement on the 7.4% in the prior month. The RBA hiked a further 25bps in March before holding flat in early April. Employment data improved during March with the unemployment rate again falling to 3.5% and retail sales data rose modestly. Consumer confidence remains subdued and business confidence deteriorated.

We would note 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 remains healthy and well above its lows from 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$ 1.7779
FEES *	Management Fee: 1.025% Performance Fee: 10.25%
MINIMUM INITIAL INVESTMENT	A$10,000
FUM AT MONTH END	A$ 705.61m
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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