

**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**
**VOLATILITY<sup>3</sup>** 24.9%

**NUMBER OF STOCKS** 18

**BETA<sup>4</sup>** 0.61

**MAXIMUM DRAW DOWN** -23.1%

**PERFORMANCE TABLE**
**NET PERFORMANCE FOR PERIODS ENDING 31 May 2022<sup>1</sup>**

|  | 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    | -4.7% | -18.8% | 3.7%         | 7.2%         | 9.4%         | 23.8%                |
| MSCI World Total Return Index (net, AUD) | -0.9% | 2.7%   | 11.3%        | 11.3%        | 10.5%        | 10.9%                |
| RBA Cash Rate plus 3%                    | 0.3%  | 3.1%   | 3.2%         | 3.3%         | 3.8%         | 4.2%                 |

**PERFORMANCE CHART**
**NET PERFORMANCE SINCE INCEPTION<sup>2</sup>**

**TOP HOLDINGS (ALPHABETICALLY)**

|                           |                        |
|---------------------------|------------------------|
| Ardent Leisure Group Ltd  | Consumer Discretionary |
| Ciena Corp                | Information Technology |
| Lamb Weston Holdings Inc  | Consumer Staples       |
| Lumentum                  | Information Technology |
| Telix Pharmaceuticals Ltd | Health Care            |

**SECTOR BREAKDOWN**

|                        |       |
|------------------------|-------|
| Consumer Discretionary | 20.6% |
| Consumer Staples       | 6.3%  |
| Health Care            | 22.2% |
| Information Technology | 16.4% |
| Materials              | 5.1%  |
| Real Estate            | 4.1%  |
| Communication Services | 8.7%  |
| Cash                   | 16.6% |

**CAPITALISATION BREAKDOWN**

|                             |       |
|-----------------------------|-------|
| Under 5bn USD               | 53%   |
| In between 5bn - 10bn USD   | 19.4% |
| In between 10bn - 100bn USD | 11%   |
| Cash                        | 16.6% |

**REGION BREAKDOWN**

|                       |       |
|-----------------------|-------|
| North America         | 41.3% |
| Europe ex-UK          | 8.8%  |
| Australia/New Zealand | 24.6% |
| Japan                 | 6.9%  |
| UK                    | 1.9%  |
| Cash                  | 16.6% |

## CONTRIBUTORS AND DETRACTORS

### COMMENTARY

The Fund fell 4.7% in May as markets continued to slide with rising inflation and bond yields.

In this month's report we look at the Fund's new position in Spotify, as well as some contributors and detractors and how we are approaching these businesses.

During May we added a new position in **Spotify** which has fallen from a peak of \$380 in 2021 to \$97, well below its IPO price of \$132 in 2018. The company recently held an analyst day highlighting its plan to increase profitability and greatly increase revenue. The company has a market value of \$19bn, \$1.8bn of cash, and approximately \$11.5bn of revenue forecast this year running at cash flow breakeven due to heavy investment in podcast content. By 2030 management sees a \$100bn revenue opportunity with a 10% operating margin.

Australian cancer oncology company **Immutep** rose 29% after reporting positive data from its phase 2 lung cancer study at ASCO, the world's largest cancer conference. The trial studied the company's leading drug Eftilagimod combined with Keytruda (Pembrolizumab) from Merck which sells approximately \$20bn per annum with patents expiring in 2028. Encouragingly the data suggests that the combination works well in treating patients that do not respond to Keytruda alone. We believe the company is well-positioned to do either a licensing deal or be acquired, with Merck clearly being a contender given the patent expiry of its lead drug. Merck currently generates USD15bn of free cash flow per annum. Immutep has a market cap of just USD175mln following recent declines making it a bite-sized potential acquisition.

Japanese auto producer **Subaru** rose 14% after reporting results and issuing positive guidance for the year ahead as auto production normalises following semiconductor shortages. The company is a strong beneficiary of a weakening yen (down from Y115 to Y134 in four months) as it has a high level of production located in Japan. Over 80% of the company's sales are in the USA and Australia, where its all-wheel drive technology is valued particularly in rural and snowy regions.

US advertising technology company **Magnite** rose 13% on little news.

On the negative side US-listed software company **Walkme** fell 38% as the market dumped unprofitable software companies. The company listed at \$31/share in June last year and is now trading at \$9. The company has a market value of \$770mln with \$327mln of cash. Revenue is expected to grow from \$250mln this year to approximately \$320mln next year. The company is currently unprofitable, however the large cash balance of this business will be more than enough to see it through to profitability. Profitable software companies generally trade between 4-10x revenue multiple which suggests substantial future upside in our view.

US Gym operator **F45** continued to slide down 29% over concerns that US consumers will tighten their belts. The company is now trading on 5x 2023 earnings with no debt, which we think more than compensates for such risks.

Japanese online retailer **Rakuten** fell 21% also due to concerns over slowing consumption, while US property developer **Howard Hughes** fell 17% due to rising bond yields and mortgage rates, which may reduce its land sales in the future but there is currently no sign of that, particularly in the Texas market which is undergoing an oil boom.

## FEATURES

|                            |  |
|----------------------------|--|
| APIR CODE                  | HHA0020AU  |
| REDEMPTION PRICE           | A\$ 0.9547   |
| FEES *                     | Management Fee: 1.80% p.a. (Class A)   1.25% p.a. (Class B)<br>Performance Fee: 15.38% (Class A)   20% (Class B) |
| MINIMUM INITIAL INVESTMENT | A\$10,000  |
| FUM AT MONTH END           | A\$ 39.64m   |
| 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

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### PENGANA.COM

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