PENGANA CAPITAL GROUP

MONTHLY REPORT
JULY 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]	11.5%
NUMBER OF STOCKS	25
BETA[4]	0.63
MAXIMUM DRAW DOWN	-23.1%

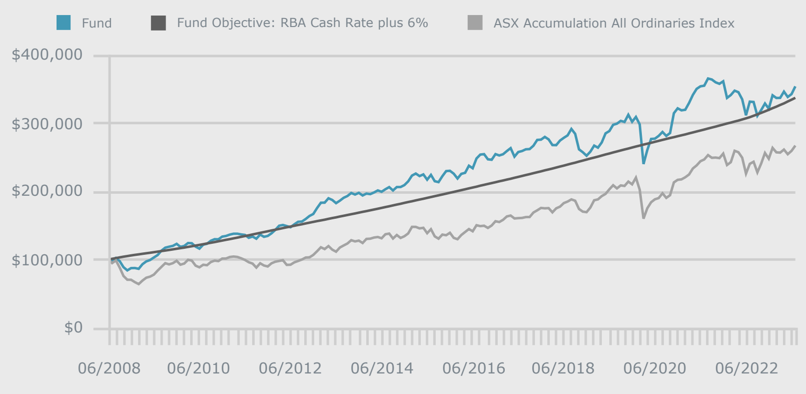
PERFORMANCE TABLE

NET PERFORMANCE FOR PERIODS ENDING 31 Jul 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	3.3%	6.8%	8.0%	4.6%	6.6%	8.7%
Fund Objective: RBA Cash Rate plus 6%	0.8%	9.2%	7.2%	7.1%	7.5%	8.4%
ASX Accumulation All Ordinaries Index	3.0%	11.1%	12.2%	7.7%	8.5%	6.7%

PERFORMANCE CHART

NET PERFORMANCE SINCE INCEPTION[2]



TOP HOLDINGS (ALPHABETICALLY)

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

SECTOR BREAKDOWN

Consumer Discretionary	10.2%
Consumer Staples	6.5%
Financials	29.4%
Health Care	15%
Industrials	4.7%
Materials	13.1%
Real Estate	0.6%
Communication Services	6.3%
Utilities	3.1%
Options	0.2%
Cash	11%

CAPITALISATION BREAKDOWN

ASX 1-50	53.3%
ASX 51-100	12.6%
ASX 101-300	10%
All Ordinaries	6.4%
Non ASX	6.5%
Derivatives	0.2%
Cash	11%

CUSTOM SECTOR BREAKDOWN

Defensive	43.1%
Financials	25.7%
Consumer Discretionary	9.8%
Resources	10.2%
Options	0.2%
Cash	11%

STRONG POSITIVE RETURNS CONTINUE AS CASH EARNINGS DELIVER

COMMENTARY

The Fund generated a +3.3% return in July. By way of comparison, the Australian stock market grew by +3.0%, whilst the (annual) return of the RBA cash rate plus 6% equated to approximately +0.8% for the month.

The Fund has continued its positive momentum calendar year to date, achieving a return of +10.2%, which compares favourably to our benchmark return of +5.5% over the same period, and the Australian stock market at +7.8%.

It was pleasing that despite its conservative settings, with a portfolio biased to defensive holdings together with elevated cash and put option exposure (lower equity exposure), the Fund was still able to outperform the market in a strongly positive period. The Fund holds a portfolio of defensive, hard assets that has been able to deliver a healthy, positive real return in varying market conditions.

Following a difficult first week, the market rallied +5.7% intra month to deliver a +3% return for July. By sector, the rally was driven by Energy and Financials, with strong contributions from the major banks. Of note to us was the ongoing outperformance of value over growth (by 2.7% in the month), evidence in our view of a return to rationality from a valuation perspective, and a positive trend for the Fund given the elevated levels of after tax cash earnings yields across the portfolio.

The main positive contributors to the Fund's performance in July were **Credit Corp**, **Evolution Mining**, **SG Fleet**, and **NAB**, with value holdings making outsized contributions across the portfolio. The main detractors in the month were **CSL**, a fall in the value of put options (consequence of a strong market), **Woolworths**, and **NIB Insurance**. We continued to add to existing holdings in **ANZ** and **Metcash** and commenced a new position in **Stockland Group**. Stockland has repositioned its portfolio substantially over the past 18 months and offers attractive exposure to the residential housing space, which continues to lag demand following a Covid pause and recent acceleration in immigration. The Fund continued to trim the position in **Amcor**. Following the final distribution in the month, overall cash holdings declined modestly to 10.7%.

Headline CPI rose 5.4% in the month, remaining elevated and at a level considerably above the RBA's target range, albeit modestly lower than the 5.5% in June. This is consistent with our expectations, that once high levels of inflation enter the system, they can be difficult to eliminate, particularly when it begins to show up in labour costs and residential accommodation costs. The Reserve Bank held the cash rate steady at 4.1% at its July meeting. Economic data continues to be mixed, with mounting anecdotal evidence suggesting a sharp slow down in discretionary spending toward the end of June, re-enforced by a weak June retail sales print in the ABS July update. However various confidence surveys such as the Westpac Consumer Confidence Index, NAB Business Confidence Index, and Westpac 'Time to buy a house' index all rose during the month (from low bases), alongside median house prices across most capital cities. We suspect the slight improvement in confidence is arising from a view that we may be nearer to peak interest rates, though caution against expectations of rate relief in the foreseeable future. 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$ 1.787
FEES *	Management Fee: 1.025% Performance Fee: 10.25%
MINIMUM INITIAL INVESTMENT	A$10,000
FUM AT MONTH END	A$ 677.65m
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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