

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
VOLATILITY³ 11.3%

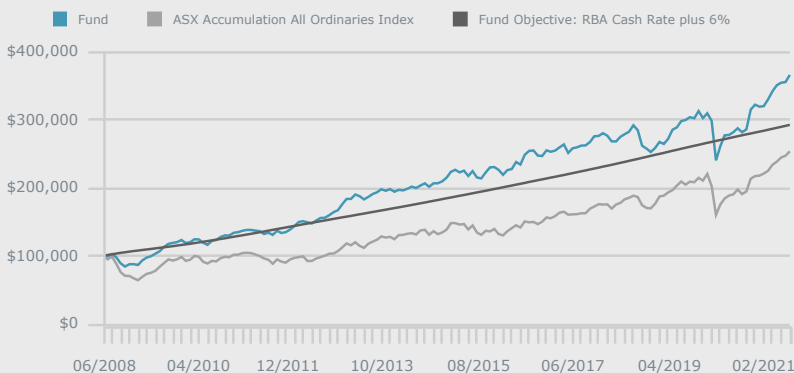
NUMBER OF STOCKS 32

BETA (USING DAILY RETURNS)⁴ 0.63

MAXIMUM DRAW DOWN -23.1%

PERFORMANCE TABLE
NET PERFORMANCE FOR PERIODS ENDING 31 Aug 2021¹

	1 MTH	1 YEAR	3 YEARS P.A.	5 YEARS P.A.	10 YEARS P.A.	SINCE INCEPTION P.A.
Australian Equities Fund	3%	27.3%	7.8%	7.6%	10.6%	10.3%
Fund Objective: RBA Cash Rate plus 6%	0.5%	6.1%	6.7%	7%	7.9%	8.5%
ASX Accumulation All Ordinaries Index	2.6%	29%	10.6%	11.3%	10.4%	7.3%

PERFORMANCE CHART
NET PERFORMANCE SINCE INCEPTION²

TOP HOLDINGS (ALPHABETICALLY)

Aristocrat Leisure	Consumer Discretionary
Credit Corp	Financials
CSL	Health Care
Evolution Mining	Materials
Mirvac Group Property Trust	Real Estate
NAB	Financials
ResMed	Health Care
SG Fleet	Industrials
Super Retail Group	Consumer Discretionary
Telstra	Communication Services

SECTOR BREAKDOWN

Consumer Discretionary	11.8%
Consumer Staples	3.2%
Energy	1.5%
Financials	27.7%
Health Care	16.8%
Industrials	9%
Materials	10.6%
Real Estate	4.4%
Communication Services	6.9%
Utilities	1.9%
Options	0.2%
Cash	6.1%

CAPITALISATION BREAKDOWN

ASX 1-50	48.3%
ASX 51-100	9.5%
ASX 101-300	22.5%
All Ordinaries	4.6%
Non ASX	8.9%
Derivatives	0.2%
Cash	6.1%

CUSTOM SECTOR BREAKDOWN

Defensive	50.2%
Financials	28.4%
Consumer Discretionary	7.7%
Resources	7.5%
Options	0.2%
Cash	6.1%

REPORTING SEASON WRAP UP

COMMENTARY

The Fund performed well in August, generating a strong return of +3%. The Australian stock market continued its year-to-date gains with a +2.6% return for the month.

August was dominated by 'reporting' season, a time of the year which we characterise as a 'firehose' of information relative to the 'trickle' throughout the rest of the year. It is a time where we typically look to assess milestones and/or validate our investment thesis across the portfolio. Whilst that remains difficult in the current environment of ongoing COVID lockdowns (making it difficult to assess the 'underlying' state of affairs), there continues to be winners and losers, with our long term focus on good businesses, run by competent management teams, by and large continuing to keep us on the right side of that equation.

The month started well for the Fund with good early results from core holdings in **Telstra, Credit Corp, and Mirvac**, setting the tone for what continued to be a month of mostly positive reporting from companies in the portfolio. In the case of **Telstra**, we have written previously of management having progressively delivered on the key pillars of our investment thesis – significantly in this period the milestone was returning profits in the important mobile business to growth, which has changed the narrative around the stock from 'stabilisation' to 'growth'.

The main contributors over the month included **Ryman Healthcare, Resmed and NAB**, whilst the detractors were limited to **AX1** and our holdings in the mining space (**RIO, Evolution Mining and Fortescue Metals Group**).

As the dust settles, we find ourselves somewhat surprised that the Fund has performed as well as it has – right now protecting capital and generating a sufficient return is hard. A key element of our capital preservation tool kit has always been the option to remain in cash, however, the associated impost is greater in a low-interest-rate environment coupled to our underlying concerns around inflation, and we find ourselves drawing increasingly from other elements such as put options, exposure to gold/utilities, and an overall bias towards defensively characterised business models.

The disruption from COVID has not tempted us to change our investment approach, rather adhering to it has focused our attention towards what we characterise as 'hard assets'. We think of hard assets as business models with long-term contractual arrangements at favourable terms with strong counterparties; owning unique or scarce assets; being the lowest-cost producer; or owning superior non-trivial intellectual property. Essentially those companies that can successfully pass on increased input costs to their customers.

An average after-tax cash earnings yield of approximately 7% across a portfolio of largely toilet paper and toothbrush-type stocks means that we can accumulate 7% in value on a fairly reliable basis.

In addition, we observe that a large number of holdings currently have what we consider to be very 'lazy' balance sheets (examples include **Credit Corp**, **SG Fleet**, **Super Retail**, **Fortescue Metals Group**, **Resmed**, **CSL**). When we lobby the respective management teams to work the balance sheets harder, a frequent (and in our opinion – valid) response has been to highlight the near-term COVID uncertainty, whilst at the same time assessing potentially accretive M&A or opportunities to invest in strengthening the existing business. Our conclusion is that in the short to medium term, there is plenty of scope for the Fund to further benefit from accretive M&A or capital returns, over and above our aforementioned 7% after-tax cash earnings yield.

The conclusion remains unchanged. A focus on capital preservation and a reasonable real return for our investors 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\$ 2.0718
FEES *	Management Fee: 1.025% Performance Fee: 10.25%
MINIMUM INITIAL INVESTMENT	A\$10,000
FUM AT MONTH END	A\$ 996.99m
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. 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 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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