

**PENGANA GLOBAL SMALL COMPANIES FUND**

**DESCRIPTION**

The Fund invests principally in small and midcap listed (or soon to be listed) global equities. Its investment objective is to obtain returns greater than the MSCI All Country World Index SMID Cap unhedged in Australian dollars ('Index') over rolling 3 year periods after fees. The Fund's investment manager, Lizard Investors LLC, uses a value oriented investment approach that seeks to identify and invest in quality businesses that create significant value but are mispriced, overlooked, or out-of-favour. The investment manager believes that unique opportunities exist due to limited available research, corporate actions, or unfavourable investor perception.

**STATISTICAL DATA**

VOLATILITY<sup>3</sup> 13%

NUMBER OF STOCKS 39

BETA<sup>4</sup> 0.73

MAXIMUM DRAW DOWN 29.1%

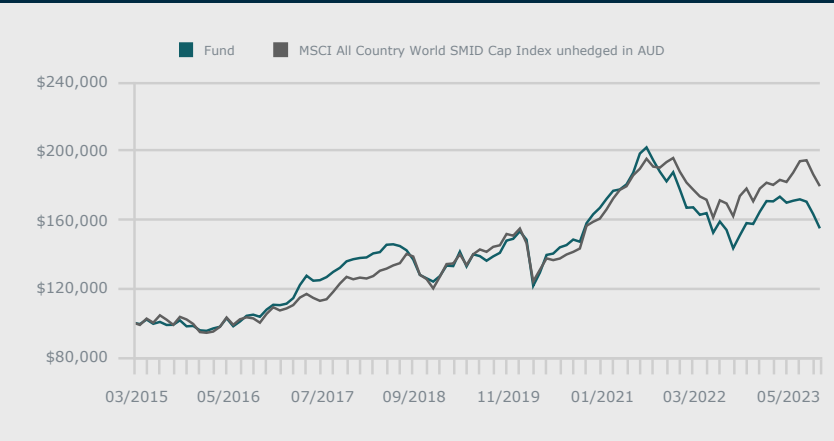
**PERFORMANCE TABLE**

NET PERFORMANCE FOR PERIODS ENDING 31 Oct 2023<sup>1</sup>

	1 MTH	1 YEAR	2 YEARS P.A.	3 YEARS P.A.	5 YEARS P.A.	SINCE INCEPTION P.A.
Global Small Companies Fund	-5.1%	2.7%	-9.2%	1.7%	3.9%	5.2%
MSCI All Country World SMID Cap Index unhedged in AUD	-3.7%	3.3%	-2.9%	7.8%	7.0%	7.0%

**PERFORMANCE CHART**

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



**TOP HOLDINGS (ALPHABETICALLY)**

Moonpig Group PLC	Consumer Discretionary
Morinaga & Co Ltd/Japan	Consumer Staples
Parkland Corp	Energy
Softwareone Holding AG	Information Technology
TriNet Group Inc	Industrials

**CAPITALISATION BREAKDOWN**

Under 2bn USD	46.5%
In between 2bn - 5bn USD	19.8%
Above 5bn USD	19.5%
Cash	14.2%

**REGION BREAKDOWN**

Europe ex UK	18.6%
North America	21.8%
Asia ex Japan	4%
Japan	14.9%
UK	22.1%
Latin America	4.3%
Cash	14.2%

## OCTOBER REPORT

### COMMENTARY

- Global equity markets continued to weaken in October as economic activity slowed and investors increasingly recognised that central banks will keep interest rates 'higher for longer'.
- Smaller companies again underperformed large-cap stocks during the month.
- Elevated interest rates and a slowing economy have brought a period of unusually severe underperformance for global small-cap stocks. The market is now trading at historically cheap earnings multiples relative to larger equities.
- This typically only endures for fairly short periods of time, generally while the global economy faces particular challenges. Smaller companies generally grow their earnings faster and at higher rates of return, which historically support valuation levels at premium earnings' multiples.
- The Fund returned -5.1% in October, while the benchmark returned -3.7%.

Global share markets weakened further during October as ongoing inflation pressure reinforced investor expectations that interest rates will stay elevated for some time. This slowed the economy and pushed longer-term bond yields higher, bringing lower share prices, especially in the small-cap universe.

Commentary by the US Federal Reserve that interest rates will remain "higher for longer" led to the US 10-year Treasury yield reaching levels last seen in 2007. However, economic data is indicating rates are now at or near their peak.

Higher bond yields, weaker consumer confidence, and geopolitical tension in the Middle East impacted investor confidence in October. On a more positive note, the US economy grew 4.9% year-on-year in the September quarter – which was faster than market forecasts – largely driven by consumer spending.

The European Central Bank kept interest rates unchanged at 4.0% after 10 successive rate hikes since July 2022. The high level of interest rates began to have an impact in September, and this trend continued into October. Eurozone third quarter GDP is thought to have contracted quarter-on-quarter, with Germany being the region's major laggard.

Furthermore, forward-looking purchasing managers' index (PMI) data remained below the 50.0 mark – which indicates economic contraction – in both Europe and the UK. European equities continue to trade at very inexpensive multiples.

China's economy grew 4.9% year-on-year in the September quarter, boosted by strong retail sales and industrial production. However, the forward-looking economic indicators continue to signal warnings of continued economic weakness.

In Japan, headline and core inflation cooled to 3.0% and 4.2%, respectively. Japanese equities showed positive momentum in the early part of October, only to give back the gains in the latter half because of higher long-term interest rates in the US and increased geopolitical tensions following the outbreak of military conflict in the Middle East.

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Emerging markets are also showing unusual signs of stress, with share prices reflecting high global interest rates, a strong US dollar, and economic weakness, especially in China.

It is likely that the current interest rate rising cycle is now approaching the end and small-cap equity investors are already discounting an upcoming recession. This brings the potential for small caps to outperform from current valuation levels.

The portfolio is now valued at an attractive level of just 12.2 times its 2023 earnings and is delivering a return on equity in excess of 25%.

Polish discount grocery store chain **Dino Polska** was the Fund's strongest contributor to relative returns in October. The Fund has been a long-term investor in the company which continues to generate good revenue and profit growth in Poland's growing economy.

Canada-based petrol station and convenience store operator **Parkland** continued to improve its operations. The Fund expects to maintain a significant holding in the company, reflecting the highly attractive market fundamentals.

The Fund established several new positions in October. Taking advantage of the attractive valuation levels, it established holdings in the Germany-based **Bechtle** and UK-based **Computacenter**. Both businesses are market leaders in their home geographies, operating in the value-adding information technology reselling market. The trend towards higher margin services businesses, such as cloud and cyber security continues to drive revenue growth for these companies, despite the challenging economic climate.

The Fund also established a new position in US-based secondary education services provider **Grand Canyon Education**. The business has created low-cost, high-value vocational training and degree programs in the US which has allowed it to grow earnings at high rates of return for many years.

The Fund also built a holding in the outsourced R&D and engineering firm **Technopro**, which provides skilled engineers to many industries across Japan. The labour market remains tight in Japan and economic growth will continue to help bolster growth in this industry-leading business.

The Fund also took the opportunity to exit positions in several companies. **TEXT**, the Polish tech business formerly known as LiveChat, was sold after three years of strong performance, as sales volume growth began to slow. Mexican internet and telephone service provider **Megacable** and Japanese video game service provider **Pole to Win** were also sold to reallocate capital into more attractive investment opportunities.

## FEATURES

APIR CODE	PCL0022AU
REDEMPTION PRICE	A\$ 1.321
FEES *	Management Fee: 1.1% Performance Fee: 20.5%
MINIMUM INITIAL INVESTMENT	A\$10,000
FUM AT MONTH END	A\$ 120.93m
STRATEGY INCEPTION DATE	1 April 2015
BENCHMARK	MSCI All Country World SMID Cap Index unhedged in AUD

## FUND MANAGERS



**Jon Moog**  
CIO and Portfolio Manager



**David Li**  
Head of Research and Portfolio 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. 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 April 2015.

3. Annualised standard deviation since inception.

4. Relative to MSCI All Country World SMID Cap index unhedged in AUD.

\* For further information regarding fees please see the PDS available on our website.

## PENGANA GLOBAL SMALL COMPANIES FUND

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### PENGANA.COM

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