

PENGANA
CAPITAL GROUP

MONTHLY REPORT
OCTOBER 2026

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.

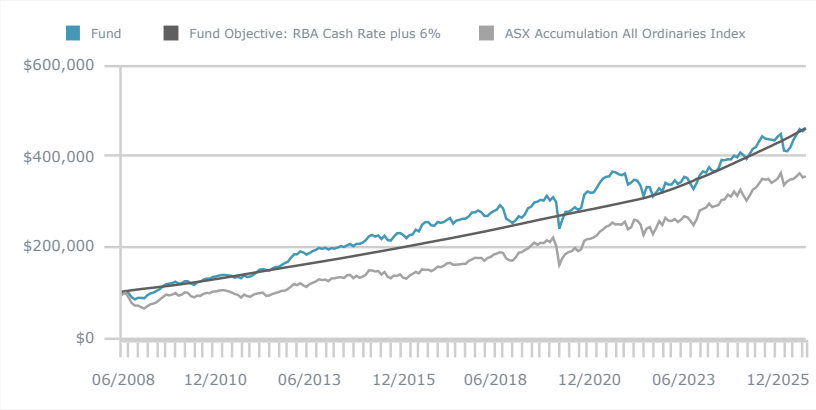
PERFORMANCE TABLE

NET PERFORMANCE FOR PERIODS ENDING 31 Oct 2026[1]

	1 MTH	1 YEAR	3 YEARS P.A.	5 YEARS P.A.	10 YEARS P.A.	SINCE INCEPTION P.A.
Australian Equities Fund	1.2%	5.4%	12.0%	5.0%	6.4%	8.7%
Fund Objective: RBA Cash Rate plus 6%	0.8%	10.1%	10.1%	9.4%	8.2%	8.7%
ASX Accumulation All Ordinaries Index	0.7%	1.6%	12.8%	7.3%	9.3%	7.1%

PERFORMANCE CHART

NET PERFORMANCE SINCE INCEPTION[2]



TOP HOLDINGS (ALPHABETICALLY)

Aristocrat Leisure Limited	Consumer Discretionary
BHP Group Ltd	Materials
Bluescope Steel Limited	Materials
Evolution Mining Limited	Materials
National Australia Bank Limited	Financials
NIB Holdings Ltd	Financials
Orica Limited	Materials
ResMed Inc	Health Care
Stockland	Real Estate
Telstra Group Limited	Communication Services

SECTOR BREAKDOWN

Consumer Discretionary	12.3%
Consumer Staples	2.9%
Energy	3.1%
Financials	23%
Health Care	8.6%
Industrials	4.8%
Materials	21.8%
Real Estate	3.8%
Communication Services	7.1%
Utilities	2.3%
Cash	10.4%

CAPITALISATION BREAKDOWN

ASX 1-50	50.5%
ASX 51-100	13.8%
ASX 101-300	22.3%
All Ordinaries	0.8%
Non ASX	2.3%
Cash	10.4%

STATISTICAL DATA

VOLATILITY[3] 11.1% | NUMBER OF STOCKS 29 | BETA[4] 0.7 | MAXIMUM DRAW DOWN -23.1%

ANOTHER EXCELLENT MONTH - POSITIVE RETURNS COMPOUNDING

COMMENTARY

Steady progress while the cost of money keeps rising

The Fund generated a return of **1.2%** during the month of October, which compares favourably with 0.7% for the market (All Ords) and 0.4% for our target of the RBA cash rate plus 6%. It brings the return for the financial year to date to **5.7%,** and **12.2%** for the last six months.

We are pleased with this result, particularly given how cautiously we have been positioned. The portfolio has been run on very conservative settings all year, with elevated cash levels, currently over 10%, and a focus on businesses that generate real cash flows today.

Backdrop

The cost of money continues to go up. The RBA lifted the cash rate again in early November to 4.85%, its fifth increase this year, and Australian 10-year bond yields spent much of October around 5.4%, levels last seen in 2011. In the US, the picture is much the same, with the 10-year Treasury yield well above 5%. Oil above US$100 a barrel has not helped the inflation outlook.

Markets have found this hard to digest. October started with the ASX 200 falling 2% in a single day and every sector in the red. The mood swung back and forth through the month as each new inflation print and central bank comment was read for clues. In our experience, this kind of environment rewards patience far more than activity.

High rates and long duration assets

It is worth spending a moment on why higher rates matter so much more for some assets than others. The value of any asset is simply the cash it will produce in the future, discounted back to today at the prevailing cost of money. For a business that earns most of its cash this year and next, a higher discount rate makes little difference. For a "long duration" asset, one whose cash flows are expected far into the future, it makes an enormous difference. A dollar received next year is worth about 3% less when the discount rate moves from 5% to 8%. A dollar received in twenty years is worth about 43% less. For a decade of near-zero rates, investors were prepared to pay almost any price for growth that was a long way off, because money cost them nothing to wait. That is no longer the case. Highly rated technology and growth companies, many property and infrastructure assets, and businesses yet to turn a profit all sit at the long end of this curve, and their valuations remain exposed while the cost of money stays where it is. We have deliberately focussed the portfolio on quality businesses, robust balance sheets that minimise the negative impact of higher interest rates and, most importantly, businesses that generate real after-tax cash now, bought at prices that do not rely on a distant future going exactly to plan.

The Portfolio

The best contributors in October were: **ResMed**, that delivered another solid quarter, with revenue up 6%, gross margins higher, and more than US$1 billion of cash handed back to shareholders through buybacks and dividends. **Cleanaway,** that agreed to a takeover by **EQT** at $3.095 a share, a 32% premium to where it traded before the approach, and a useful reminder that private capital can see value in good, unexciting businesses even when the share market cannot. **Aristocrat**, **BlueScope** and **IAG**, that also added meaningfully.

The largest detractor was **Maas Group**, which gave back much of its September gain after Firmus pulled its planned ASX float. Fortunately we had sold the greater part of our holding into strength prior to this. **Evolution Mining**, **Ampol** and **BHP** also gave back some of their enormous gains in prior months as commodity prices eased, and our new position in **Zip** (−0.29%) had a soft first full month.

We were net sellers during the month, selling $9.6 million of stock and buying $2.6 million. We took profits in **IAG**, **BlueScope**, **ResMed** and **Metcash** after strong runs, and continued to trim **Ampol** and **Maas Group**. We added to **Zip** aggressively, using the weakness to build the position, and also added a little to Seek ($0.4 million). Cash finished the month at 10.4%, which gives us the flexibility to act when prices become more attractive, which we suspect they will.

The portfolio continues to generate a forward after-tax cash earnings yield of around 6.8%. That is real cash, earned today, by businesses that do not need low interest rates to justify their share prices.

Outlook

The RBA's split vote in November suggests the end of this tightening cycle may be getting closer, but we are not prepared to bet the portfolio on it. Inflation is still well above target, and the cost of money is likely to stay high for some time yet. In that world, the price paid for an asset matters a great deal again, and we think that favours the type of businesses we own.

We remain as focused as ever on our primary objectives of capital preservation and generating a reasonable real return. We will continue to do this by owning a variety of good businesses, run by honest and competent management teams, bought at the right price.

FEATURES

APIR CODE	PCL0005AU
REDEMPTION PRICE	A$ 1.6849
FEES *	Management Fee: 1.025% Performance Fee: 10.25%
MINIMUM INITIAL INVESTMENT	A$10,000
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
Senior Fund Manager



Michael Maughan
Senior 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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