

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

VOLATILITY³ 13%

NUMBER OF STOCKS 40

BETA⁴ 0.73

MAXIMUM DRAW DOWN -29.1%

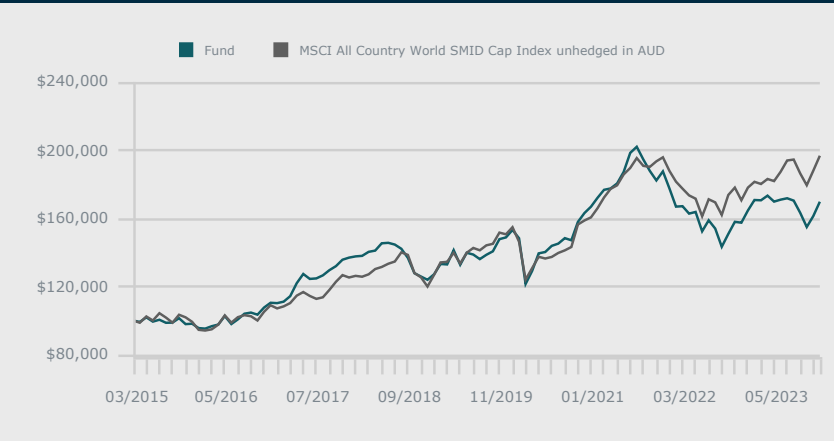
PERFORMANCE TABLE

NET PERFORMANCE FOR PERIODS ENDING 31 Dec 2023¹

	1 MTH	1 YEAR	2 YEARS P.A.	3 YEARS P.A.	5 YEARS P.A.	SINCE INCEPTION P.A.
Global Small Companies Fund	5.2%	7.8%	-4.9%	1.3%	6.5%	6.2%
MSCI All Country World SMID Cap Index unhedged in AUD	4.7%	15.3%	0.2%	7.4%	10.4%	8.0%

PERFORMANCE CHART

NET PERFORMANCE SINCE INCEPTION²



TOP HOLDINGS (ALPHABETICALLY)

Concentrix Corp	Industrials
ePlus Inc	Information Technology
IONOS Group SE	Information Technology
On the Beach Group PLC	Consumer Discretionary
TechnoPro Holdings Inc	Industrials

CAPITALISATION BREAKDOWN

Under 2bn USD	46.1%
In between 2bn - 5bn USD	33%
Above 5bn USD	19.8%
Cash	1%

REGION BREAKDOWN

Europe ex UK	21.8%
North America	17.8%
Asia ex Japan	5.9%
Japan	17.9%
UK	24.7%
Middle East / Africa	3%
Latin America	7.9%
Cash	1%

MIKE TYSON'S PUNCH-OUT

COMMENTARY

- Global equity markets strengthened further in December as falling inflation across developed economies raised hopes that interest rates will soon start to fall.
- Smaller companies performed especially well during the month as their highly attractive valuation levels began to be recognised by the market following an extended period of underperformance.
- The Fund returned 5.2% in December, while the benchmark returned 4.7%.

Market Commentary

In 1987 Nintendo launched the iconic video game *Mike Tyson's Punch-Out*. The game featured an undersized boxer, 'Little Mac,' who had to take on a series of bigger and stronger opponents, before facing Mike Tyson for the Championship Belt. Little Mac initially got pummeled by the larger, stronger boxers. However, after hours of perseverance, he would find his rhythm and begin to overpower these larger opponents.

Since the beginning of 2022 investing in the small-cap market has felt reminiscent of the early challenges in *Mike Tyson's Punch-Out*. Small-cap equities have been battered and bruised, whereas larger caps globally have fared much better.

Since November, Little Mac has started punching back as small caps started to outperform the large-cap universe. The pressing question investors face is this: 'Was the recent performance of small caps a mere flash in the pan or the beginning of sustained outperformance?'

Although small caps have historically outperformed over the long term, they tend to underperform in times of market stress. Over the past two years supply chain issues, rising interest rates, an energy crisis, and wars in Ukraine and the Middle East have all dented market sentiment.

The longer-term outperformance of smaller cap equities can be attributed to faster underlying earnings growth. Much of the small-cap outperformance followed recessions or challenging market conditions and the building blocks for good small cap performance over the next three to five years now appear to be in place.

Global financial markets closed 2023 on a high note. The central themes of 2023 have been the fight against inflation and the effect of higher interest rates on corporate earnings growth. US economic growth has exceeded forecasts and early indicators suggest that the Federal Reserve is bringing inflation back to target, improving the likelihood of a soft landing.

US economic data was strong in December as unemployment remained low, inflation continued to moderate and retail sales and industrial production data closed the year higher. While the large-cap S&P500 index increased 0.9% in December (in AUD terms,) the smaller company Russell 2000 soared 8.3%, reversing the trend seen over much of 2023.

European economies remained weak with Eurozone data indicating continued contraction, while the UK is signalling very weak expansion. China's re-opening from COVID-19 lost momentum earlier in 2023 as the highly leveraged real estate market impacted both investment and consumer spending, threatening a major recession. Meanwhile, in Japan, the manufacturing and services sectors remained strong with the help of the weak yen. Importantly, the

Japanese Stock Exchange's ongoing effort to improve corporate governance seems to be yielding positive results.

Portfolio Highlights

The Fund outperformed the benchmark during December, returning 5.2%, while the benchmark returned 4.7%. The Fund's smaller cap holdings performed particularly well, as strong stock performance, especially in consumer discretionary, communications services, Europe, and Asia boosted returns. The Fund's underweight position in North America was the main detractor from relative returns.

On The Beach is a UK-based travel agent which focusses on short and medium haul flight and hotel package holidays to Continental Europe. The share price appreciated more than 55% in December upon strong full year earnings, with profits returning to pre-COVID levels. While the company's fundamentals have been improving for some time, this only became better reflected in its market valuation in December.

EPlus, the US-based IT distributor which integrates and manages customer networks also performed strongly during December. While there were no significant company-specific developments, it reflected broader gains across the US small-cap IT sector as investors began positioning for the opportunities that a lower interest rate environment will bring.

The Fund increased its position in **Ionos Group**, a German-based internet service that delivers web hosting, domain, and cloud computing products. It was one of the Fund's strongest contributors to relative returns after it released higher forward revenue guidance, which it expects to help expand margins earlier than expected.

A new position was established in **AfreecaTV**, the market leading gaming and video streaming service in Korea. The business has a best-in-class cost structure and the largest user base in the industry. Amazon-owned Twitch entered the local market a decade ago creating a highly competitive environment. Twitch announced its withdrawal in December and the Fund established its position in the AfreecaTV the following day. This represents a critical change in the industry structure and should allow AfreecaTV to return to high-margin growth. The shares were purchased at approximately 12 times earnings, which is extremely attractive for an industry leader in a growth market.

FEATURES

APIR CODE	PCL0022AU
REDEMPTION PRICE	A\$ 1.4477
FEES *	Management Fee: 1.1% Performance Fee: 20.5%
MINIMUM INITIAL INVESTMENT	A\$10,000
FUM AT MONTH END	A\$ 129.19m
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.

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