

PENGANA HIGH CONVICTION EQUITIES FUND

DESCRIPTION

The Pengana High Conviction Equities Fund (the Fund) invests globally in a concentrated portfolio of up to 20 stocks. The Fund can invest in both small and large cap stocks and is diversified across countries and sectors. We avoid investment in companies that are currently, in our opinion, unnecessarily harmful to people, animals or the environment.

STATISTICAL DATA

VOLATILITY³ 24.2%

NUMBER OF STOCKS 16

BETA⁴ 0.63

MAXIMUM DRAW DOWN -32.1%

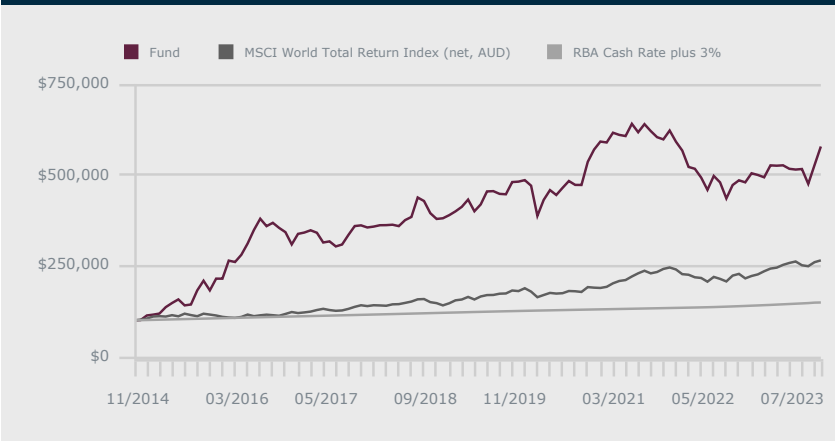
PERFORMANCE TABLE

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.
High Conviction Equities Fund Class A	9.7%	20.6%	-3.6%	0.5%	8.7%	21.4%
MSCI World Total Return Index (net, AUD)	1.9%	23.0%	3.9%	11.8%	13.5%	11.4%
RBA Cash Rate plus 3%	0.6%	6.8%	5.5%	4.7%	4.3%	4.5%

PERFORMANCE CHART

NET PERFORMANCE SINCE INCEPTION²



TOP HOLDINGS (ALPHABETICALLY)

Brazilian Rare Earths Ltd.	Materials
Clarity Pharmaceuticals Ltd	Health Care
Eckert & Ziegler Strahlen- und	Health Care
Immutep Ltd	Health Care
IperionX Ltd	Materials

SECTOR BREAKDOWN

Health Care	49.3%
Materials	31.6%
Communication Services	16%
Options	0.4%
Cash	2.7%

CAPITALISATION BREAKDOWN

Under 5bn USD	83%
In between 5bn - 10bn USD	8.9%
In between 10bn - 100bn USD	4.9%
Derivatives	0.4%
Cash	2.7%

REGION BREAKDOWN

North America	9.8%
Europe ex-UK	20.2%
Australia/New Zealand	66.9%
Options	0.4%
Cash	2.7%

ADDING BRAZILIAN RARE EARTHS

COMMENTARY

The Fund rose 9.7% in December.

- Significant investment in **Brazilian Rare Earths** with IPO return of 32%, exploring high-grade sources.
- Market updates include **Clarity Pharmaceutical's** 33% rise, **Immutep's** 17% increase, and **Major Drilling's** strong results.
- **Opthea** rises 8% after securing funding, with further funding expected; major Phase 3 studies to begin.

We added a significant new position during the month via an initial public offering of Australian-listed **Brazilian Rare Earths**, an exploration company with 1400sqkm of tenements in Brazil's Bahia state. The company has the potential to be the largest and richest rare earth reserve globally. The investment returned 32% from the issue price of \$1.45 on the 20th of December to the close of the month, although it has given up some of those gains in January, trading up 17% at \$1.7 at the time of writing.

We expect the shares to rise during the year as the company releases drilling and reserve updates. Of great interest to the market is whether the company can find the source rock for 30 high grade boulders that have been found on the surface with rare earth grades of more than 30%. The current richest rare earth deposit belongs to Australian listed Lynas at Mt Weld with a grade of 5%. Drilling results will be released in Q1. Should the company be successful they will be by far the lowest cost producer globally.

Even without the ultrahigh grade ore, the company can still be largest rare earths deposit in the world. With only 1% of its tenements explored the company has 510mln tonnes of resource at a grade of 1500ppm (0.15%) with a target of providing up to 8 to 12bn tonnes. The reserves published in the prospectus were based on 10,000m of drilling done up until May 2023.

Since that time the company has drilled a further 19,000m of cores and acquired tenements from Rio Tinto with 57,000m of cores which are currently being analysed. The company expects to release assays from both in Q1 and an updated resource is expected in Q2 covering 30% of its tenement area.

We rate the management extremely highly. Executive Chairman Todd Hannigan, also Executive Chairman of the Fund's largest holding IperionX, has 30 years of experience operating mining companies. CEO Bernardo de Veiga is Brazilian, educated in Australia, with experience in corporate finance before founding and operating a successful Brazilian iron ore producer.

The market capitalisation at the time of writing on the 12th of January 2024 is \$350mln. Australian listed Brazilian rare earth producer Meteoric (MEI AU) is the closest peer with a market value of \$500mln.

Australia listed radiotherapy company **Clarity Pharmaceutical** rose 33% during the month, now up 240% since we invested four months ago, driven by several pieces of news, the most important of which was the takeover of another radiotherapy company RayzeBio by Bristol Myers for USD4.1billion. Although RayzeBio's lead product is more advanced than Clarity's, entering Phase 3 studies rather than Phase 2, it is in a much smaller indication of Neuroendocrine Tumours with 18,000 cases per year compared to prostate cancer with 288,000 new cases. Another radiotherapy company Point Biopharma was acquired by Lilly in October. We believe Clarity is also a takeover target over the coming year as it continues to release data from its prostate cancer dose escalation study SECURE.



Australian and US listed cancer immunotherapy company **Immutep** rose 17% on little material news. Rather we believe investors are now focused on the company's first randomised trial, a Phase 2b study in Head and Neck Cancer due in March, which will be a significant catalyst for the shares. Positive results from the study will greatly increase the attractiveness of the company as a takeover target.

German listed medical and industrial radio isotope producer **Eckert and Zeigler** rose 9% on little news although late in November did announce that it plans to separate its profitable isotope business which supplies many healthcare companies in the radiotherapy space from its own internal own loss-making radiation therapy business. This makes enormous sense to us given the different risk profiles and investor bases for these businesses as well as reducing the potential conflict of interest in competing with their customers. The company also announced it commenced enrolling a phase 2 radiation therapeutic study in Lymphoma.

Canadian listed drilling service provider **Major Drilling** reported strong quarterly results in December, with revenue rising to the highest level since 2012. Our core thesis is that increased structural demand for copper and battery metals will see a multiyear cycle in drilling demand despite a short-term slump in the lithium metal prices. Recent high gold prices are also beneficial for the company particularly if junior gold miners become more aggressive in exploration. Recent takeover activity in the drilling sector, such as Boart Longyear last month and DDH1 in October, suggests that industry players see the long-term structural demand. As a side note, it is expected that in 2024 almost 40% of new cars sold in China, out of 27 million, will be EVs, with 120 new EV models launching in 2024.

Australian and US listed ophthalmic drug company **Opthea** rose 8% after announcing it had received USD35mln of funding under a previously announced deal with Carlisle. In addition, a USD50mln option was exercised under the same agreement but with a new investor taking Carlisle's place. We expect the company will require further funding before the end of 2024. The enrolment of its two major Phase 3 clinical studies in wet aged macular degeneration is expected before the end of Q2 with results one year later.

FEATURES	
APIR CODE	HHA0020AU
REDEMPTION PRICE	A\$ 1.1207
FEES *	Management Fee: 1.80% p.a. (Class A) 1.25% p.a. (Class B) Performance Fee: 15.38% (Class A) 20% (Class B)
MINIMUM INITIAL INVESTMENT	A\$10,000
FUM AT MONTH END	A\$ 40.29m
STRATEGY INCEPTION DATE	11 December 2014
BENCHMARK	RBA Cash Rate + 3%

FUND MANAGERS	
	James McDonald Portfolio Manager
	Jeremy Bendeich Portfolio Manager

1. Net performance figures are shown are those of Class A Units, 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 11 December 2014.

3. Annualised standard deviation since inception.

4. Relative to MSCI World. Using daily returns.

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

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