MONTHLY REPORT
MAY 2021

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

VOLATILITY[3] 11.4%	NUMBER OF STOCKS 34	BETA[4] 0.63	MAXIMUM DRAW DOWN -23.1%

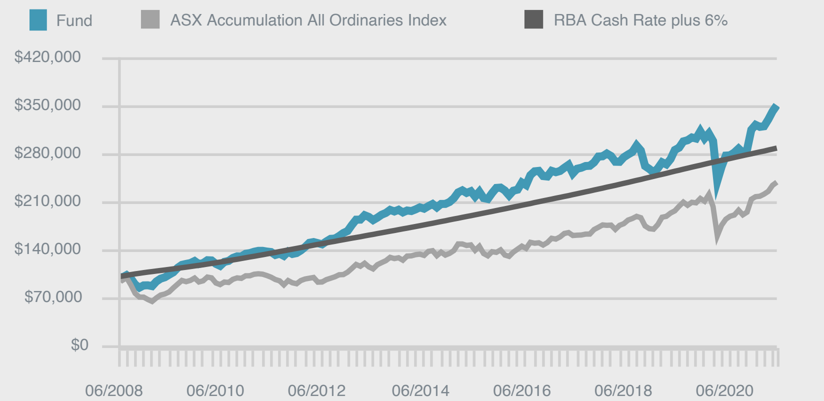
PERFORMANCE TABLE

NET PERFORMANCE FOR PERIODS ENDING 31 MAY 2021[1]

	1 MTH	1 YEAR	3 YEARS	5 YEARS	10 YEARS	SINCE INCEPTION
Fund	**2.6%**	**26.5%**	**8.5%**	**8.1%**	**9.9%**	**10.2%**
RBA Cash Rate	0.0%	0.2%	0.8%	1.1%	2.0%	2.5%
ASX Accumulation All Ordinaries Index	2.0%	30.0%	10.4%	10.5%	8.9%	6.9%

PERFORMANCE CHART

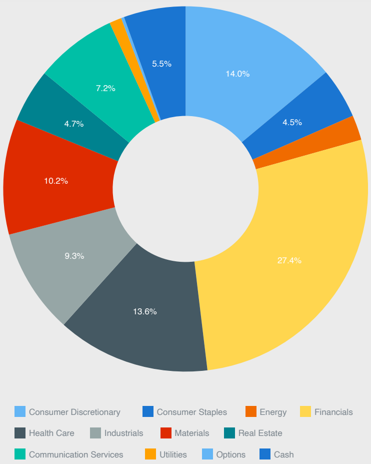
NET PERFORMANCE SINCE INCEPTION[2]



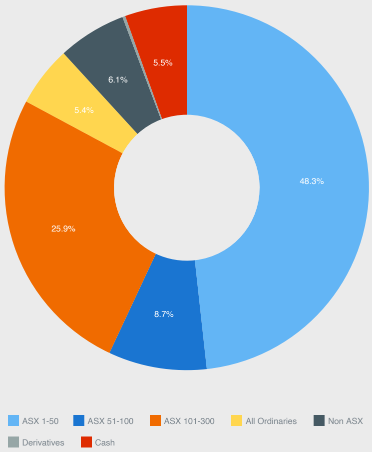
TOP HOLDINGS (ALPHABETICALLY)

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

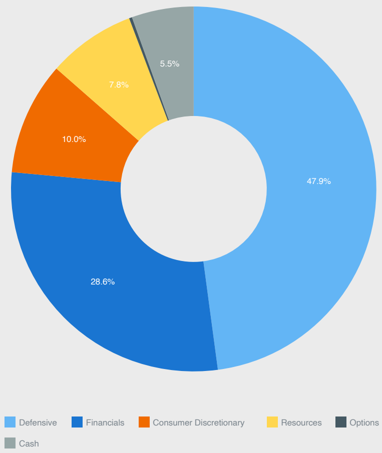
INDUSTRY



MARKET CAP



ECONOMIC SECTOR



ITS ALL ABOUT SUSTAINABLE AFTER TAX CASH RETURNS...

COMMENTARY

For some time our commentary in this monthly newsletter has been dominated by a few of the more pertinent concerns and opportunities facing investors. While we remain focused on preserving the purchasing power of the Fund entrusted to our stewardship in an environment that can best be characterised by rampant excess liquidity, pervasive FOMO, and the limited availability of safe havens for capital, we decided to focus on the underlying investment fundamentals of one of our larger holdings.

Super Retail Group (SUL) has been a clear beneficiary of the Covid Pandemic, decisively raising capital to secure the balance sheet, successfully converting limitations on international travel and government stimulus windfalls into strong near term earnings and, beyond that, re-investing in strengthening their sustainable competitive advantages at the group level.

With international borders closed, the consumer has focused their attention on domestic lifestyle options, which has played right into the hands of the group's portfolio of **Auto** (car/garage), **Rebel** (sport), and **BCF** (domestic leisure/recreation). Importantly, the accelerated shift to online has not, as predicted by some, resulted in a loss of market share or profitability for the Super Retail Group. We have observed for a number of years now that investors appear to have underestimated a significant body of work that began under the previous CEO Peter Birtles and further developed under current CEO Anthony Heraghty to elevate SUL's omnichannel retail capabilities. As online penetration took a multi-year leap over the past 12 months, the SUL portfolio has thrived, gaining market share and enjoying substantial increases to gross and operating margins along the way.

Furthermore, contrary to the view that the group's retail store footprint would be a liability in such a market shift, around 95% of all group sales (both online and in-store) continued to be collected in-store, and this remained relatively consistent through the COVID trading. The learning has been that the substantial national store footprint continues to be an asset for the group. We believe this store footprint, superior supply chain capabilities, key customer relationships, and the ability to take large inventory positions (courtesy of the very robust balance sheet), combine to create a portfolio of competitive advantages that should see further market share gains in the medium term.

Despite the strong performance and near term momentum, management is acutely aware of the fact that they are currently 'over earning' – and are focused on making the right decisions now to ensure that as conditions 'normalise' they can retain as much of the elevated turnover and profitability levels as possible. In other words, normalise to a level above the original pre-covid trajectory. Specifically, they are taking advantage of near-term windfalls to invest in stronger head office capabilities around procurement, pricing intelligence, rostering, property expertise, and more data-led strategies to drive promotional activity. There remain significant opportunities in terms of enhancing and monetising customer loyalty programs and further improvements in omnichannel capabilities. We have discussed each of these topics in some detail with management and are of the view that the group is on track to exit Covid in a much stronger position than it entered it.

Finally, with regards to valuation, despite the strong recent share price performance we view the shares as offering significant value. On an FY23 basis (ie post-Covid earnings) we believe the stock trades on around 13.5x earnings with an almost 9% after tax-free cash flow yield. The Group will almost certainly exit this financial year in a positive net cash position, which will grow larger in the following years given the strong cash-generating nature of the business, suggesting scope for some form of capital management in the medium term.

FEATURES

APIR CODE	PCL0005AU
REDEMPTION PRICE	A$ 2.0228
FEES *	Management Fee: 1.025% Performance Fee: 10.25%
MINIMUM INITIAL INVESTMENT	A$20,000
FUM AT MONTH END	A$ 981.53m
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. 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.

*(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.

PENGANA AUSTRALIAN EQUITIES FUND

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