PENGANA CAPITAL

MONTHLY REPORT
JUNE 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]	NUMBER OF STOCKS	BETA[4]	MAXIMUM DRAW DOWN
11.4%	35	0.63	-23.1%

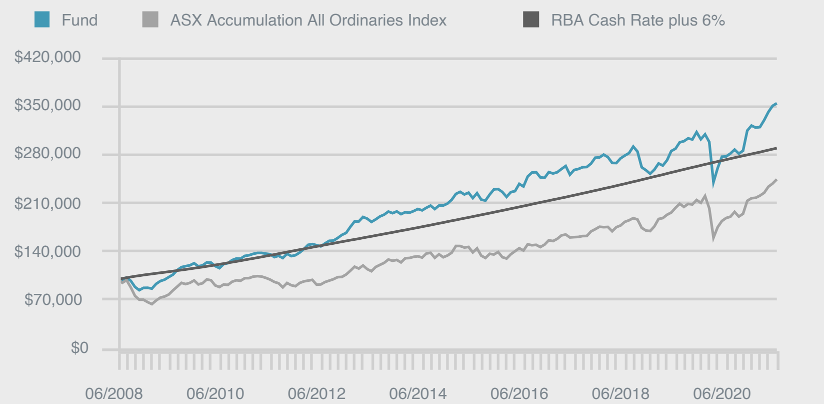
PERFORMANCE TABLE

NET PERFORMANCE FOR PERIODS ENDING 30 JUNE 2021[1]

	1 MTH	1 YEAR	3 YEARS	5 YEARS	10 YEARS	SINCE INCEPTION
Fund	**1.1%**	**27.7%**	**8.3%**	**8.6%**	**10.0%**	**10.2%**
RBA Cash Rate	0.0%	0.2%	0.8%	1.1%	2.0%	2.5%
ASX Accumulation All Ordinaries Index	2.6%	30.2%	10.3%	11.5%	9.4%	7.1%

PERFORMANCE CHART

NET PERFORMANCE SINCE INCEPTION[2]



TOP HOLDINGS (ALPHABETICALLY)

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

INDUSTRY

Communication Services	7.1%
Consumer Discretionary	14.9%
Consumer Staples	1.7%
Energy	1.7%
Financials	27.6%
Health Care	14.6%
Industrials	8.9%
Materials	9.8%
Options	0.3%
Real Estate	4.8%
Utilities	1.1%
Cash	5.7%

MARKET CAP

ASX 1-50	47.7%
ASX 51-100	8.8%
ASX 101-300	25.7%
All Ordinaries	4.7%
Derivatives	0.3%
Non ASX	7.1%
Cash	5.7%

ECONOMIC SECTOR

Consumer Discretionary	9.9%
Defensive	48.7%
Financials	28.2%
Options	0.3%
Resources	7.3%
Cash	5.7%

27.7% ANNUAL RETURN - DEPLOYING SUBSTANTIAL CAPITAL INTO LAST YEAR'S BARGAINS PAYS OFF - NOW WE ARE MORE CAUTIOUS

COMMENTARY

Since inception thirteen years ago, the Fund has averaged **10.2% pa** return after all fees and charges. By way of context, the Australian share market and Cash rates averaged 7.1% pa and 2.5% pa over the same period respectively.

It has been a tumultuous 13 years, punctuated by many "once in a life time events" including: the Global Financial Crisis, Central Bank Quantitative Easing (QE), versions 1, 2 and 3, the Greek banking crisis, the bond market Taper Tantrum, Brexit, the Trump presidency, a Flash Crash, and most recently a global pandemic. Paradoxically the latter event resulted in massive government stimulus that injected liquidity into financial markets helping them recover from pandemic lows and reach new heights.

The Fund generated a robust return for unit holders of 27.7% over the financial year ending June 2021. We were particularly pleased given the conservative setting of the Fund as well our ability to minimize the drawdown during the prior year's Covid induced negative performance, the first negative year in the Fund's history.

We are cognizant that the ultra low cost of money continues to push up prices across the full range of asset classes, including those where the designation of "asset" may be stretching the truth somewhat. Yields available to investors continue to waver between thin, wafer thin and even negative, particularly in real terms.

The inflation debate has moved from… "Will we actually have inflation as more and more money chases a limited amount of goods and services?" to… "How transitory will the actual mid-single digit inflation readings be?" While we acknowledge a strong undercurrent of technology driven productivity offset and that supply chains will eventually adjust to increased demand for scarce resources, we do worry that once inflation becomes embedded in consumer expectations it may persist at higher rates. Importantly, we have also noticed the term for the combination of low growth and inflation – stagflation – starting to enter the economic debate.

Against this backdrop we remain focused on our role of preserving and growing the purchasing power of our clients' funds. Hard assets, which we define as companies with sustainable high single digit after tax cash earnings yields due to their pricing power, dominate our portfolio. Valuation support is bolstered by competent, honest management and robust balance sheets. In addition, approximately 28% of the portfolio has non-$A earnings streams – this should provide good diversification against the strengthening USD if their interest rates rise.

For the quarter ended 30th June 2021 the Fund generated 7.4%. By way of context, this was during a buoyant environment given the share market return of 8.7% and the RBA cash rate remained at record low levels.

Positive contributors during the quarter included Aristocrat, Resmed, Accent Group and Telstra, all large long-term holdings with dominant market shares in their respective markets. The outlook for Resmed has strengthened due to a major product recall by Respironics, its major competitor in the global sleep apnea medical device duopoly. Estimates indicate that this could give Resmed a 3-year runway to further entrench itself as the dominant player. Detractors included Credit Corp (not unexpected given its strong recent performance) and Ryman Health Care due to an unanticipated announcement of the long serving CEO's intention to leave the company.

Although we believe the valuations of our holdings are supported by underlying yields, we worry about shocks to financial stability given the level of stimulus induced liquidity. As protection against potential sell offs, **we have been adding to our existing position in market wide Put Options as insurance.** While we hope and pray that these Puts expire as worthless, we find that we have been sleeping easier since putting them in place.

The upcoming reporting season in August will provide important details for how companies are navigating the uncertain economic landscape – recent lockdowns in NSW and emerging cases in VIC have added to uncertainty. This is relevant to most retailers that added to inventory levels in anticipation of continuation of robust sales numbers. The effective roll-out of vaccines is a critical factor in consumer confidence, especially leading into the cyber sales events followed by Christmas retail shopping peaks. The closure of international borders should assist in continued local spending, but these should be captured in the base, making the cycling of comparative numbers challenging for the so-called Covid-19 beneficiaries. It is our view that businesses with strong balance sheets, pricing power and solid relationships with suppliers should thrive and be stronger businesses when all this disruption is behind us.

In conclusion, we retain our long-held view that a focus on capital preservation and a reasonable real return for our investors is best served by a disciplined approach and consistent investment methodology. Good businesses run by honest and competent management at the right price will create a well-diversified portfolio of ever-growing cash earnings streams.

FEATURES

APIR CODE	PCL0005AU
REDEMPTION PRICE	A$ 2.0443
FEES *	Management Fee: 1.025% Performance Fee: 10.25%
MINIMUM INITIAL INVESTMENT	A$20,000
FUM AT MONTH END	A$ 987.06m
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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