

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
VOLATILITY³ 11.2%

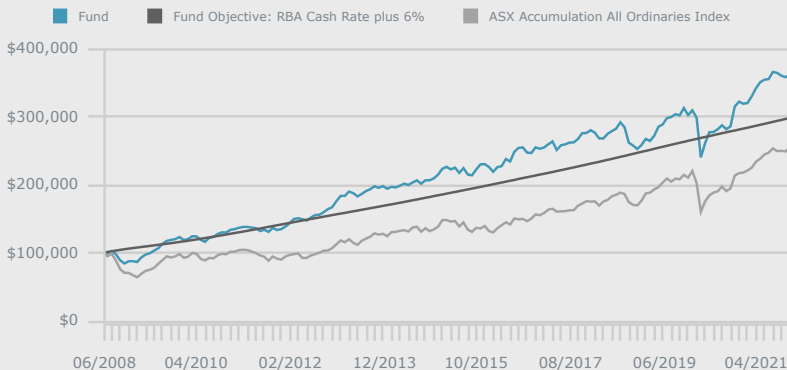
NUMBER OF STOCKS 29

BETA⁴ 0.63

MAXIMUM DRAW DOWN -23.1%

PERFORMANCE TABLE
NET PERFORMANCE FOR PERIODS ENDING 31 Dec 2021¹

	1 MTH	1 YEAR	3 YEARS P.A.	5 YEARS P.A.	10 YEARS P.A.	SINCE INCEPTION P.A.
Australian Equities Fund	1%	12.3%	12.7%	7.3%	10.4%	10%
Fund Objective: RBA Cash Rate plus 6%	0.5%	6.1%	6.5%	6.9%	7.7%	8.4%
ASX Accumulation All Ordinaries Index	2.7%	17.7%	14.8%	10.4%	11%	7.2%

PERFORMANCE CHART
NET PERFORMANCE SINCE INCEPTION²

TOP HOLDINGS (ALPHABETICALLY)

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

SECTOR BREAKDOWN

Consumer Discretionary	11.8%
Consumer Staples	3.4%
Financials	27.2%
Health Care	17%
Industrials	8.3%
Materials	11.5%
Real Estate	4.1%
Communication Services	7%
Utilities	2.1%
Options	0%
Cash	7.7%

CAPITALISATION BREAKDOWN

ASX 1-50	52%
ASX 51-100	4.2%
ASX 101-300	20.7%
All Ordinaries	5.6%
Non ASX	9.8%
Derivatives	0%
Cash	7.7%

CUSTOM SECTOR BREAKDOWN

Defensive	50.2%
Financials	27%
Consumer Discretionary	7.4%
Resources	7.7%
Options	0%
Cash	7.7%

TOPPING UP ON "HARD ASSETS" TO PRESERVE PURCHASING POWER

COMMENTARY

The Fund generated a positive return of 1.0% during December capping off a credible 12.4% return for the calendar year and comfortably exceeding its targeted return. By way of comparison, equity markets remained exuberant with a return by the Australian equity market of 2.5% and 16.5% for the 1 month and year respectively, highlighting our conservative positioning which, in hindsight, may have been too cautious. In particular, our Put Options position provided the ability to hold more equities with confidence but were not without a cost. We do not regret this investment and regard them as a useful tool in achieving our target of consistent returns.

We remain focussed on walking the tightrope between preserving capital and generating a return in an investment environment dominated by growth at any price, lofty valuations and what appears to be an overly sanguine view on the outlook for both inflation and interest rates. For some time we have shared our view on the likely impact of higher interest rates on the back of sharply higher inflation percolating its way through global economies.

In simple terms investors seeking to preserve the purchasing power of their money are facing a dilemma arising from the following conundrums:

1. "Hiding" in cash leaves one vulnerable to the impact of inflation purchasing power erosion without any compensation from yield.
2. Interest rates need to be sharply higher given the current negative real returns on offer from cash deposits and most government bonds.
3. Long duration assets are worth less if/when the cost of money (interest rates) go up, leaving most asset classes exposed at these valuation levels. The potential for retracement has been exaggerated by decades of low interest rates, translating into ever higher asset prices – BTD ("Buy The Dip").
4. The enormous transfer of wealth from governments globally to the private sector (not to mention the transfer of wealth from future generations due to the stimulus-induced borrowings by Central Banks) has supported consumer spending and savings. There is a lot of money around.
5. "Hard assets" – defined as companies with inelastic demand and pricing power – offer protection against inflation. These are hard to find and even rarer at reasonable valuations.

In summary, we think both inflation and higher interest rates are coming. Our conviction, while high, will rise further should the US Federal Reserve start the ball rolling as raising interest rates in isolation leaves any country which chooses to go early vulnerable to a stronger currency.

For some time the Fund's holdings have been focussed on companies that demonstrate the characteristics of "hard assets". Several significant examples include;

Telstra – This continues to be our largest holding in the portfolio. We are attracted by the calibre of its mobile phone network, scale, sustainable pricing premium as well as the benefits arising from scale, and a head start on the 5G rollout over its competitors. In addition to mobile data demand being remarkably inelastic (try depriving anyone of their mobile data these days) we anticipate that the majority of the network infrastructure investments are sunk costs, implying large operating leverage effect should inflation manifest itself in pricing. Another differentiator not well appreciated is the CPI linked nature of the recurring revenues from the NBN for the rental of Telstra's wired infrastructure. With regards to valuation, our analysis highlights the large favourable gap between historic depreciation and current maintenance capital expenditure, substantially boosting our after-tax cash earnings yield from our investment.

Amcor – one of our new holdings, the company is a global packaging group, with a well-diversified range of products servicing a range of consumer products including food and medical products. The company has significant scale to facilitate sophisticated long term contracts that pass through higher input costs while simultaneously investing in R&D as an essential service in providing sustainable packaging to its global customers. Management have demonstrated their competence through the consistent earnings growth in spite of a volatile operating environment and large acquisition, providing confidence that its geographically diversified factories will be resilient in our anticipated economic environment.

Health Insurers: Medibank and NIB Holdings – Both listed health insurers are well run providers of domestic health insurance. There are several favourable industry dynamics including: a) the risk equalisation levy sharply reduces underwriting risk, b) existing government incentives for the public to become policyholders and c) industry-wide initiatives on reducing claims costs gaining traction. In addition, both companies have large pools of both Shareholder and policyholder funds currently significantly underearning due to the low interest rate environment. A return to a higher interest rate environment should be an enormous boost to the return on equity for shareholders.

FEATURES

APIR CODE	PCL0005AU
REDEMPTION PRICE	A\$ 2.0486
FEES *	Management Fee: 1.025% Performance Fee: 10.25%
MINIMUM INITIAL INVESTMENT	A\$10,000
FUM AT MONTH END	A\$ 958.4m
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. No allowance has been made for buy/sell spreads. 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.

PENGANA AUSTRALIAN EQUITIES FUND

PENGANA CAPITAL LIMITED

ABN 30 103 800 568

AFSL 226566

CLIENT SERVICE

T: +61 2 8524 9900

F: +61 2 8524 9901

E: clientservice@pengana.com



PENGANA.COM

Pengana Capital Ltd (ABN 30 103 800 568, Australian financial services license number 226566) is the issuer of units in the Pengana Australian Equities Fund (ARSN 146 346 929) (the "Fund"). A product disclosure statement for the Fund is available and can be obtained from our distribution team. A person should obtain a copy of the product disclosure statement and should consider the product disclosure statement carefully before deciding whether to acquire, or to continue to hold, or making any other decision in respect of, the units in the Fund. This report was prepared by Pengana Capital Ltd and does not contain any investment recommendation or investment advice. This report has been prepared without taking account of any person's objectives, financial situation or needs. Therefore, before acting on any information contained within this report a person should consider the appropriateness of the information, having regard to their objectives, financial situation and needs. Neither Pengana Capital Ltd nor its related entities, directors or officers guarantees the performance of, or the repayment of capital or income invested in, the Fund.