

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 11.3%

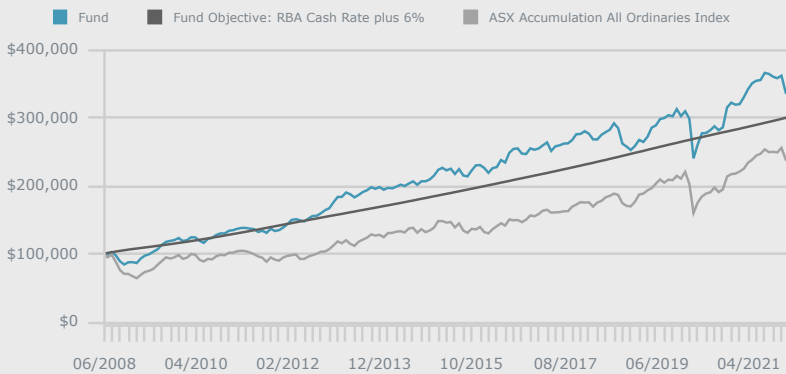
NUMBER OF STOCKS 32

BETA⁴ 0.63

MAXIMUM DRAW DOWN -23.1%

PERFORMANCE TABLE
NET PERFORMANCE FOR PERIODS ENDING 28 Feb 2022¹

	1 MTH	1 YEAR	3 YEARS P.A.	5 YEARS P.A.	10 YEARS P.A.	SINCE INCEPTION P.A.
Australian Equities Fund	1.3%	6.8%	8.5%	6.0%	9.0%	9.4%
Fund Objective: RBA Cash Rate plus 6%	0.5%	6.1%	6.5%	6.9%	7.7%	8.4%
ASX Accumulation All Ordinaries Index	1.7%	10.0%	9.3%	9.0%	9.6%	6.7%

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	11.4%
Consumer Staples	3.7%
Financials	27.5%
Health Care	15.4%
Industrials	9.2%
Materials	13.9%
Real Estate	4%
Communication Services	7.3%
Utilities	2.2%
Cash	5.4%

CAPITALISATION BREAKDOWN

ASX 1-50	53.1%
ASX 51-100	4.8%
ASX 101-300	21.2%
All Ordinaries	5.8%
Non ASX	9.7%
Cash	5.4%

CUSTOM SECTOR BREAKDOWN

Defensive	49.7%
Financials	27.7%
Consumer Discretionary	8.3%
Resources	8.8%
Cash	5.4%

A PLEASING REPORTING SEASON FOR THE FUND, HOWEVER MARKET-WIDE VALUATION PRESSURES ARE AGAIN EMERGING

COMMENTARY

The Fund generated a +1.3% return in the month of February. By way of comparison, the (annual) return of the RBA cash rate + 6% equated to approximately +0.5% for the month, whilst the Australian stock market grew by +1.7% over the month.

We are pleased to report that, for the vast majority of the Fund's holdings, February was a successful reporting season, providing validation almost across the board for our respective investment theses.

Our broad conclusions from reporting season are as follows: firstly, underlying earnings remain strong, secondly the resulting cash flow impost is high, and finally the assessment of risk for predicting cash flows is going up, placing medium term pressure on market valuations.

The Australian market was a standout performer globally in February, with all other global benchmarks experiencing substantial declines (S&P 500 -3.1%, EU -2.8%). The main drivers of this outperformance were a generally positive 1H22 reporting season, as well as an increasingly dominant resource weighting in the index, whose constituents benefited in particular from accelerating commodity prices throughout the month. The materials sector alone contributed around 1.3% to the market's performance or >75% of the market's total 1.7% in the month.

For the vast majority of the Fund's holdings, February was a successful reporting season, providing validation almost across the board for our respective investment theses. When making this assessment we consider multiple criteria, or milestones, including on one level actual profits and cash flows reported, whilst on another more fundamental level operating KPI's that speak more to the longer-term health of the business. With regards to the former, there remains considerable 'noise in the numbers', with Covid interruptions still distorting current profits and cash flows. Underlying KPI's on the other hand remain important to us and speak more to the company's momentum, balance of power, and management's competency in the current face of adversity.

Our broad conclusions from reporting season are as follows: 1) ***Underlying earnings remain strong.*** Stimulus, low cost of debt, elevated savings rates and a domestic-focused economy are combining to keep demand levels high across most industries. 2) the ***Cash Flow impost is high.*** Elevated levels of demand combined with ongoing supply chain disruptions are resulting in businesses having to invest significantly higher amounts of working capital to secure and hold inventory, or maintain favour with suppliers under what can be characterised as a 'Just in Case' inventory model, compared to the previous best practice of 'Just in Time'. This underscores the importance of a strong balance sheet and supply chain capabilities as competitive advantages in the current environment. 3) ***Assessment of risk for predicting cash flows is going up.*** When forecast risk is high (geopolitical/Covid/other), investors tend to compensate by lowering estimates (building in a greater margin for error), and/or factoring in a greater risk premium in their valuation models. Both of these factors have negative consequences for company valuations and as the dust settles post reporting we are seeing that play out in the more recent market correction.

The main contributors to performance in the month were positions in **Evolution Mining**, **Smart Group** and **NAB**, whilst the main detractors were **Credit Corp**, **Aristocrat Leisure**, and **Accent Group**. We remain confident in the positioning of the portfolio, being concentrated in high-quality, resilient businesses capable of navigating and even thriving in what we expect will continue to be a difficult environment. The underlying after-tax cash yield of the portfolio at month-end was approximately 7.5% – one of the highest levels that we have experienced, and

representing strong value in our view. The portfolio is in very good shape.

Despite an elevated level of short-term noise, we remain as focused as ever on our primary objectives of capital preservation and generating a reasonable real return for our investors. We continue to believe this is best served by a disciplined approach and consistent investment methodology. A variety of good businesses run by honest and competent management teams at the right price will create a well-diversified portfolio of ever-growing cash earnings streams.

FEATURES

APIR CODE	PCL0005AU
REDEMPTION PRICE	A\$ 1.892
FEES *	Management Fee: 1.025% Performance Fee: 10.25%
MINIMUM INITIAL INVESTMENT	A\$10,000
FUM AT MONTH END	A\$ 883.53m
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. 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.