

**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<sup>3</sup> 11.3%

NUMBER OF STOCKS 28

 BETA<sup>4</sup> 0.63

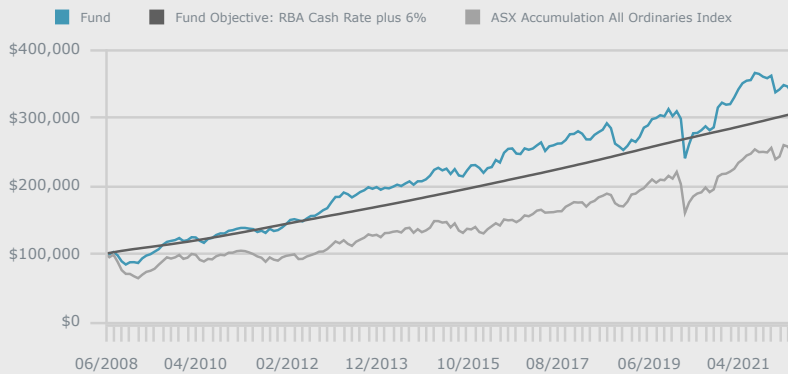
MAXIMUM DRAW DOWN -23.1%

**PERFORMANCE TABLE**

 NET PERFORMANCE FOR PERIODS ENDING 31 May 2022<sup>1</sup>

	1 MTH	1 YEAR	3 YEARS P.A.	5 YEARS P.A.	10 YEARS P.A.	SINCE INCEPTION P.A.
Australian Equities Fund	-3.0%	-4.4%	5.5%	5.9%	8.4%	9.1%
Fund Objective: RBA Cash Rate plus 6%	0.5%	6.1%	6.3%	6.8%	7.6%	8.3%
ASX Accumulation All Ordinaries Index	-3.1%	4.7%	8.5%	9.3%	10.5%	6.8%

**PERFORMANCE CHART**

 NET PERFORMANCE SINCE INCEPTION<sup>2</sup>

**TOP HOLDINGS (ALPHABETICALLY)**

Amcor PLC	Materials
Aristocrat Leisure	Consumer Discretionary
BHP Group Ltd	Materials
CBA	Financials
Credit Corp	Financials
CSL	Health Care
Evolution Mining	Materials
NAB	Financials
Telstra	Communication Services
Woolworths	Consumer Staples

**SECTOR BREAKDOWN**

Consumer Discretionary	9.6%
Consumer Staples	3.8%
Financials	27.2%
Health Care	15.1%
Industrials	7.9%
Materials	14.8%
Real Estate	3.7%
Communication Services	7.1%
Utilities	2.2%
Options	0.5%
Cash	8%

**CAPITALISATION BREAKDOWN**

ASX 1-50	56%
ASX 51-100	4.3%
ASX 101-300	17.3%
All Ordinaries	6.8%
Non ASX	7.2%
Derivatives	0.5%
Cash	8%

**CUSTOM SECTOR BREAKDOWN**

Defensive	48.4%
Financials	27.4%
Consumer Discretionary	6.8%
Resources	8.8%
Options	0.5%
Cash	8%

## GLOBAL INFLATION CONTINUES ITS UPWARD MARCH

### COMMENTARY

The Fund generated a -3.0% return in the month of May. 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 declined by -3.1% over the month.

Global Inflation continues its upward march. We believe domestic inflation is likely to experience further upward pressure, with wage growth just starting to emerge, energy prices likely to accelerate and retailers talking of the need for price points to go up. Central banks continue to pursue hiking policies in an attempt to reign in escalating inflation, whilst withdrawing quantitative easing measures. The cost of money is going up at the same time as the availability of money is going down.

For the first time in several months the ASX underperformed global peers during the month of May, with the S&P 500 holding broadly flat, whilst Asian and European markets mostly generated positive returns. With the exception of the Materials sector (+0.1%), all ASX sectors trended lower, led by Real Estate, Technology and Staples. Global Inflation continues its upward march – with the May release for the annual inflation rate in the US once again printing ahead of expectations at 8.3%, whilst CPI in Australia accelerated to 5.1% for the 12 months to March. We believe domestic inflation is likely to experience further upward pressure, with wage growth just starting to emerge, energy prices likely to accelerate and retailers talking of the need for price points to go up. Central banks continue to pursue hiking policies in an attempt to reign in the escalating inflation, with the RBA this week increasing rates by 50bps, the largest single hike for more than 20 years, following its first hike for this cycle in early May.

Economies globally are facing the double whammy of having to digest the removal of unprecedented levels of quantitative easing and other stimulus support, whilst at the same time adjust to the inflection point of a 30 yr downward interest rate cycle, with interest rates globally now rising again at pace. The cost of money is going up at the same time as the availability of money is going down, a troubling formula (to say the least) for investing in long duration assets.

We continue to position the portfolio with a view to navigating these challenges, ensuring exposure to business models with pricing power and low levels of price elasticity (to combat inflation) as well as those who benefit from a rising interest rate environment. In addition, our cash balance continues to rise from a low point earlier in the year, and we continue to benefit from our put position in the portfolio, the value of which has risen considerably given recent market movements.

The main contributors to performance in the month were positions in Amcor, Ryman Healthcare, BHP and NIB Insurance, whilst the main detractors were Credit Corp, Woolworths and Super Retail Group. Portfolio activity focused mainly on opportunistic adding to existing positions on weakness, in particular to BHP and Macquarie Group, whilst disposals included exiting a position in Fortescue Metals Group (focusing our materials exposure on BHP), and otherwise related to managing liquidity, trimming positions in DBI and NHF.

Despite elevated volatility in markets, 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\$ 1.8573
FEES *	Management Fee: 1.025% Performance Fee: 10.25%
MINIMUM INITIAL INVESTMENT	A\$10,000
FUM AT MONTH END	A\$ 847.35m
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](mailto: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.