MONTHLY REPORT
AUGUST 2022

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
11.5%	27	0.63	-23.1%

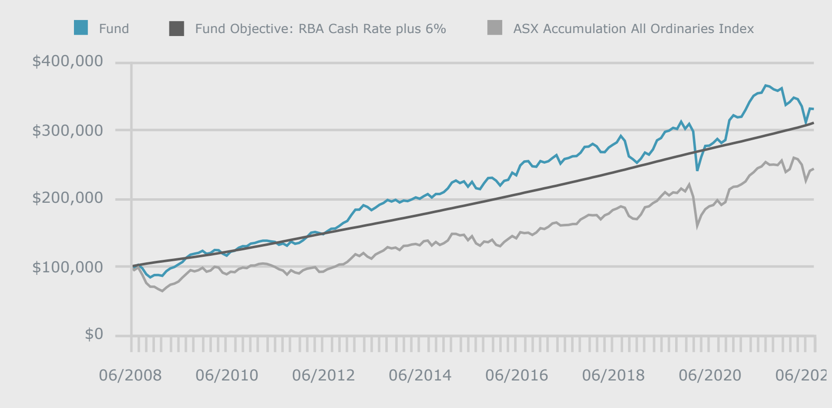
PERFORMANCE TABLE

NET PERFORMANCE FOR PERIODS ENDING 31 Aug 2022[1]

	1 MTH	1 YEAR	3 YEARS P.A.	5 YEARS P.A.	10 YEARS P.A.	SINCE INCEPTION P.A.
Australian Equities Fund	-0.1%	-9.4%	3.4%	4.8%	7.9%	8.8%
Fund Objective: RBA Cash Rate plus 6%	0.7%	6.4%	6.4%	6.8%	7.5%	8.3%
ASX Accumulation All Ordinaries Index	1.3%	-3.9%	6.2%	8.5%	9.5%	6.5%

PERFORMANCE CHART

NET PERFORMANCE SINCE INCEPTION[2]



TOP HOLDINGS (ALPHABETICALLY)

BHP Group Ltd	Materials
CBA	Financials
CSL	Health Care
Medibank Private	Financials
NAB	Financials
NIB Holdings	Financials
ResMed	Health Care
SG Fleet	Industrials
Telstra	Communication Services
Woolworths	Consumer Staples

SECTOR BREAKDOWN

Consumer Discretionary	10.3%
Consumer Staples	4.3%
Financials	27.8%
Health Care	15.1%
Industrials	6.5%
Materials	12.3%
Real Estate	3.2%
Communication Services	7.1%
Utilities	2.4%
Options	0.4%
Cash	10.5%

CAPITALISATION BREAKDOWN

ASX 1-50	57.2%
ASX 51-100	3%
ASX 101-300	16.5%
All Ordinaries	6.4%
Non ASX	6%
Derivatives	0.4%
Cash	10.5%

CUSTOM SECTOR BREAKDOWN

Defensive	47.9%
Financials	26.1%
Consumer Discretionary	8%
Resources	7.1%
Options	0.4%
Cash	10.5%

A MOSTLY PLEASING REPORTING SEASON FOR THE FUND, HOWEVER STRENGTH TO JUNE IS GIVING WAY TO A MORE UNCERTAIN AND CHALLENGING OUTLOOK

COMMENTARY

The Fund generated a -0.1% return in the month of August. By way of comparison, the (annual) return of the RBA cash rate + 6% equated to approximately +0.7% for the month, whilst the Australian stock market improved by +1.3% over the month.

The market performance in August was again driven entirely by the Materials and Energy sectors, together making up 140 bps of the markets overall 130bps gain – i.e. the market performance ex materials and energy was therefore negative in August. Strength early in the month quickly abated following hawkish comments from the Federal Reserve re-igniting fears that central banks may be more aggressive in their efforts to contain inflation by raising rates.

Notwithstanding a range of share market reactions to results, for the most part we were pleased with the recent reporting season, with our investment thesis for positions throughout the portfolio largely confirmed. That said, strength in trading to June 30 has given way to a more uncertain and challenging outlook, and forecast error remains high.

Volatility has returned in September, and the fund is benefiting from our lower equity exposure (cash levels continued to rise through August), as well as an increase in the value of the put position in the portfolio.

Despite an elevated level of 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.

The main positive contributors to performance in the month were private health insurers **Medibank** and **NIB, Accent Group**, **Telstra** and **Super Retail Group**. The main detractors were **Credit Corp, Smart Group, Evolution Mining**, **Resmed** and the cost of put options. The latter two have provided a strong positive contribution in early September trading, following a positive operational update from Resmed, and a return to market volatility resulting in an increase in the value of put options.

Portfolio activity in August focused on taking profits from recent positive performers such as **Telstra, NAB**, and **Super Retail Group**, whilst in a reflection of current market conditions (still relatively high valuations and lower visibility around future earnings), there was a broader trimming of various positions across the portfolio, with cash holdings rising as a result.

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Reporting season largely confirmed what we already knew about trading to June 30 – that is operating momentum and cash flows mostly remained strong into the financial year end. However outlook commentary was more varied as conditions have changed materially since then and, as a result, forecast error remains elevated. Factors such as the impact of rising rates and inflation on household budgets, rising cost pressures on corporate operating expenses – in particular around labour rates and shortages, and the rising cost of debt on corporate balance sheets resulted in a general drop in sentiment amongst analysts throughout the month, as highlighted by the downward revisions overall to earnings estimates for FY23 and FY24.

We continue to position the portfolio with a view to navigate 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 in September given recent market movements.

Despite an elevated level of 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$ 1.7764
FEES *	Management Fee: 1.025% Performance Fee: 10.25%
MINIMUM INITIAL INVESTMENT	A$10,000
FUM AT MONTH END	A$ 789.35m
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.

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