

## 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> 11.5%

NUMBER OF STOCKS 25

BETA<sup>4</sup> 0.63

MAXIMUM DRAW DOWN -23.1%

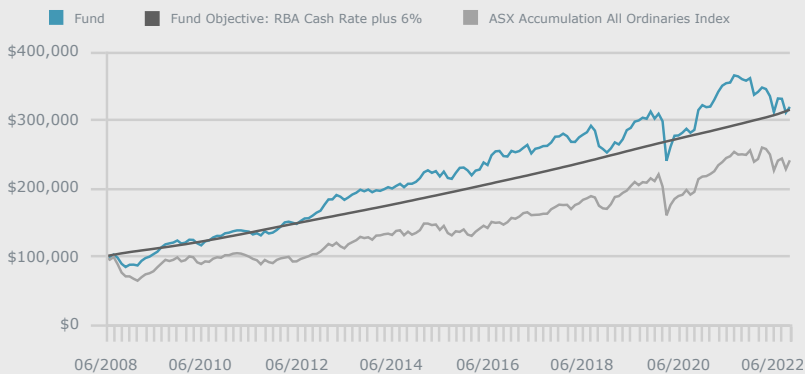
### PERFORMANCE TABLE

NET PERFORMANCE FOR PERIODS ENDING 31 Oct 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              | 2.7%  | -11.3% | 1.9%         | 3.6%         | 7.2%          | 8.4%                 |
| Fund Objective: RBA Cash Rate plus 6% | 0.7%  | 6.8%   | 6.4%         | 6.8%         | 7.5%          | 8.3%                 |
| ASX Accumulation All Ordinaries Index | 5.7%  | -3.5%  | 5.2%         | 7.4%         | 8.9%          | 6.3%                 |

### PERFORMANCE CHART

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



### TOP HOLDINGS (ALPHABETICALLY)

|                    |                        |
|--------------------|------------------------|
| Aristocrat Leisure | Consumer Discretionary |
| BHP Group Ltd      | Materials              |
| CBA                | Financials             |
| Credit Corp        | Financials             |
| CSL                | Health Care            |
| NAB                | Financials             |
| NIB Holdings       | Financials             |
| ResMed             | Health Care            |
| Telstra Group Ltd  | Communication Services |
| Woolworths         | Consumer Staples       |

### SECTOR BREAKDOWN

|                        |       |
|------------------------|-------|
| Consumer Discretionary | 10.8% |
| Consumer Staples       | 4.2%  |
| Financials             | 25.9% |
| Health Care            | 14.7% |
| Industrials            | 5.1%  |
| Materials              | 12.6% |
| Real Estate            | 3.3%  |
| Communication Services | 7.1%  |
| Utilities              | 2.5%  |
| Options                | 0.1%  |
| Cash                   | 13.6% |

### CAPITALISATION BREAKDOWN

|                |       |
|----------------|-------|
| ASX 1-50       | 57%   |
| ASX 51-100     | 3.1%  |
| ASX 101-300    | 15.2% |
| All Ordinaries | 5%    |
| Non ASX        | 5.9%  |
| Derivatives    | 0.1%  |
| Cash           | 13.6% |

### CUSTOM SECTOR BREAKDOWN

|                        |       |
|------------------------|-------|
| Defensive              | 46.1% |
| Financials             | 24.2% |
| Consumer Discretionary | 9%    |
| Resources              | 7%    |
| Options                | 0.1%  |
| Cash                   | 13.6% |

## AGM SEASON SEES COMPANY EARNINGS HEADWINDS PUSHED OUT TO CALENDAR 1H23

### COMMENTARY

The Fund generated a +2.7% return in the month of October. 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 +5.7%.

October is AGM season with company addresses typically providing investors with a trading update for their respective businesses. Whilst a number of sectors surprised on the upside during the month – such as Financials, and Discretionary Retailers, overall revisions were mostly skewed to the downside.

The impact of elevated inflation and cost of living pressures was yet to take full effect in corporate trading to October, however, investors anticipate a more substantial impact on earnings to come in 1H calendar 2023. Importantly while consumer surveys continue to show a decline in consumer confidence, discretionary spending data points remain intact. Our base working assumption is that the “gravity” of higher interest rates and cost of living expenses will materialise early in the new year.

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.

The main positive contributors to performance in October were financials **National Australia Bank** and **Commonwealth Bank**, discretionary retailers **Super Retail Group** and **Accent Group**, and **Aristocrat Leisure**. The main detractors were **Medibank Private** (cyber security scare), **NIB Insurance**, **BHP**, **Woolworths**, and a revaluation of put options. Portfolio activity in August focused on taking profits from recent positive performers such as **NAB** and **CBA** as well as trimming positions in **Amcor** ahead of a Q1 trading update (which disappointed the market). Cash holdings continued to gradually rise throughout the month to finish at 13.3% on October 31.

The market performance in October was primarily driven by the Financials sector, with Energy continuing its strong positive contribution YTD. October is AGM season with company addresses typically providing investors with a trading update for their respective businesses. Whilst a number of sectors surprised on the upside during the month – such as Financials with expanding Net Interest Margins, and Discretionary Retailers with ongoing buoyancy in consumer spending, overall revisions were mostly skewed to the downside (i.e. the number of downward revisions was 1.5x the number of upward revisions), with high freight and energy costs and a weak AUD being key drivers of downgrades to forward estimates.

Outlook commentary remains varied as conditions have changed materially since FY22 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 continues to weigh on sentiment amongst investors. The impact of these factors was yet to take full effect in trading to October, however, investors anticipate a more substantial impact on earnings to come in 1H calendar 2023. Importantly while consumer surveys continue to show a decline in consumer confidence, discretionary spending data points remain intact. Our base working assumption is that the “gravity” of higher interest rates and cost of living expenses will materialise early in the new year.

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 that benefit from a rising interest rate environment. In addition, our cash balance continues to rise from a low point earlier in the year.

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\$ 1.7133  |
| FEES *                     | Management Fee: 1.025%<br>Performance Fee: 10.25%             |
| MINIMUM INITIAL INVESTMENT | A\$10,000   |
| FUM AT MONTH END           | A\$ 745.41m   |
| 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. Please refer to the PDS for information regarding risks. 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

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### PENGANA.COM

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