PENGANA
CAPITAL GROUP

MONTHLY REPORT
FEBRUARY 2023

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
11.6%	24	0.63	-23.1%

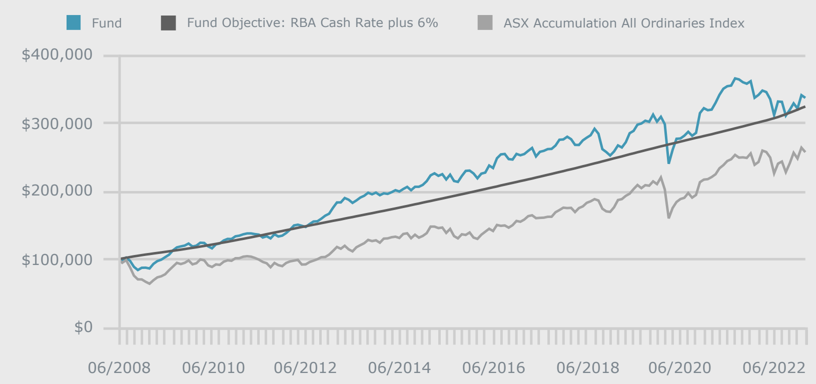
PERFORMANCE TABLE

NET PERFORMANCE FOR PERIODS ENDING 28 Feb 2023[1]

	1 MTH	1 YEAR	3 YEARS P.A.	5 YEARS P.A.	10 YEARS P.A.	SINCE INCEPTION P.A.
Australian Equities Fund	-1.2%	-1.3%	4.2%	4.1%	6.3%	8.6%
Fund Objective: RBA Cash Rate plus 6%	0.7%	7.8%	6.7%	6.9%	7.5%	8.3%
ASX Accumulation All Ordinaries Index	-2.5%	6.0%	8.5%	8.1%	8.1%	6.7%

PERFORMANCE CHART

NET PERFORMANCE SINCE INCEPTION[2]



TOP HOLDINGS (ALPHABETICALLY)

Aristocrat Leisure	Consumer Discretionary
BHP Group Ltd	Materials
CBA	Financials
CSL	Health Care
NAB	Financials
NIB Holdings	Financials
ResMed	Health Care
Super Retail Group	Consumer Discretionary
Telstra	Communication Services
Woolworths	Consumer Staples

SECTOR BREAKDOWN

Consumer Discretionary	12%
Consumer Staples	4.5%
Financials	26%
Health Care	14.2%
Industrials	3.7%
Materials	13.6%
Real Estate	1.3%
Communication Services	6.9%
Utilities	2.6%
Options	0.6%
Cash	14.8%

CAPITALISATION BREAKDOWN

ASX 1-50	55%
ASX 51-100	4%
ASX 101-300	15.1%
All Ordinaries	5.3%
Non ASX	5.3%
Derivatives	0.6%
Cash	14.8%

CUSTOM SECTOR BREAKDOWN

Defensive	44.4%
Financials	21.7%
Consumer Discretionary	10.1%
Resources	8.5%
Options	0.6%
Cash	14.8%

DEFENSIVELY POSITIONED WITH AN OPTION TO THE UPSIDE

COMMENTARY

The Fund generated a -1.2% return in the month of February. By way of comparison, the (annual) return of the RBA cash rate plus 6% equated to approximately +0.7% for the month, whilst the Australian stock market declined by -2.5%. Calendar year to date the fund has returned a 4.9% gain compared to cash plus 6% of 1.4% and a market return of 3.8%. We are pleased with the Fund's ability to have participated in the upside in January, despite its more cautious positioning, whilst also proving resilient in a more challenging February.

February saw a reversal of some of January's strong gains, with reporting season bringing to bear some of the risks that we have been speaking about in recent months. Specifically, *elevated forecast risk* was evident in the higher number of 'beats' and 'misses' compared to average, whilst the *elevated cost environment* became more evident in corporate earnings.

Notwithstanding a generally difficult month for equity markets, the Fund experienced a mostly positive reporting season in terms of benchmarking the updates from our holdings with their respective investment theses. Outlook commentary made it clear, for the first time, that factors such as the impact of rising rates and inflation on household budgets, and rising cost pressures on operating expenses, are beginning to materialise in corporate earnings.

Outlook commentary continued to reflect a more cautious environment and we observed outsized share price reactions, generally negative, as investors recalibrated their earnings and expectations. Secondly, the *elevated cost environment* became more evident in corporate earnings. Revenue lines generally held up well, supported by inflation pass through and a still buoyant consumer. However corporate operating costs, and particularly financing expenses, rose sharply, with the latter a common driver of earnings downgrades throughout the month.

The main positive contributors to performance in February were **Medibank** (benefiting from a still benign claims environment and growing participation), **SG Fleet, Aristocrat,** and **Accent Group**. Positive contributions also came from **Super Retail Group**, **Woolworths,** and **Telstra**, all of which reported resilient earnings and outlook statements. The main detractors in the month were **Evolution Mining** on missed earnings, **Ryman Healthcare** following a capital raising during the month, and **BHP** which fell alongside the materials sector as a whole on the back of lower commodity prices through February. The Fund's cash holdings continued to gradually rise to finish at 15.1% by month end, largely a result of our focus on taking profits into the early year strength, and managing exposure to less liquid names in the portfolio.

Among all of the corporate commentary during the month, we believe comments from CBA managing director Matt Comyn stood out, referencing not just increasing pressures on Net Interest Margins (resetting the market's NIM expectations resulting in underperformance by banks for the remainder of the month) but also noting the significant pressures on household budgets that were not yet reflected in its asset quality metrics. He anticipated arrears rates would likely start to rise more noticeably from this point. More broadly, outlook commentary for the first time made clear that factors such as the impact of rising rates and inflation on household budgets, and rising cost pressures on operating expenses, are beginning to materialise in corporate earnings.

We would note also that whilst the market has responded positively to what appears to be a peak in inflation, we continue to view the macro environment as a likely headwind for equity markets in the medium term. Inflation may have peaked, but remains elevated, and still well above central bank rates globally. As a result we expect an elevated rate environment to continue for sometime yet, as opposed to the more favourable 'easing' backdrop that has supported long duration assets for much of the past 20+ years. 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 in the prior year.

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$ 1.7772
FEES *	Management Fee: 1.025% Performance Fee: 10.25%
MINIMUM INITIAL INVESTMENT	A$10,000
FUM AT MONTH END	A$ 726.46m
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. The benchmark of cash rate plus 6% p.a. is included in the chart as it relates to the Fund's investment objective and performance fee. The Fund may invest up to 100% of its assets in equity securities. The greater risk of investing in equities is reflected in the addition of a margin above the cash rate. 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.

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