PENGANA CAPITAL

PENGANA PRIVATE EQUITY TRUST (ASX:PE1)
KEY RISKS

There are a number of risks associated with investing in the Trust which are set out in detail in Section 11 of the PDS. They include the following:

RISKS RELATING TO THE PRIVATE MARKETS INVESTMENT STRATEGY

(a) **Risks Associated with Portfolio Companies** – The Portfolio Companies in which the Trust or the Underlying Funds have invested or may invest may involve a high degree of business and financial risk.

(b) **Lack of Portfolio Liquidity** – The Underlying Funds may hold significant amounts of securities and other assets issued by Portfolio Companies that are very thinly-traded, for which no market exists, or which are restricted as to their transferability.

(c) **Market Risk** – During periods of difficult market conditions or slowdowns in a particular investment category, industry, or region, Portfolio Companies may experience decreased revenues, financial losses, difficulty in obtaining access to financing, and increased costs.

(d) **Currency Risk** – Investments will predominantly be made in U.S. dollars (as well as multiple other foreign currencies), and if these currencies change in value relative to the Australian dollar, the value of these investments can change and accordingly can negatively affect the value of the Portfolio. The Investment Manager has no obligations or duty to hedge the Trust's currency risk, however, in certain limited circumstances, the Trust may engage in foreign exchange hedging transactions intended to reduce foreign exchange exposure, primarily to hedge capital calls or known Commitments.

(e) **Long-Term Time Horizon** – Even if the Trust's investments prove successful, they are unlikely to produce a realised return for a number of years.

(f) **Reliance on Third-Party Underlying Investment Managers** – The Trust invests in Underlying Funds and Portfolio Companies managed by third parties. GCM, as Investment Manager of the Trust, generally does not have an active role in the management of the assets of the third-party managed Underlying Funds or Portfolio Companies, including in the valuation of investments by the third-party managed Underlying Funds. Although the Investment Manager will monitor the performance of Underlying Funds and Co-investments, GCM relies upon third-party Underlying Investment Managers to operate the third-party managed Underlying Funds and Co-investments on a day-to-day basis. GCM's ability to withdraw from or transfer interests in such funds and Co-investments is strictly limited. Further, the performance of each investment made by GCM depends significantly on decisions made by third parties, who will generally have sole and absolute discretion in structuring, negotiating and purchasing, financing, monitoring and eventually divesting investments made by such third-party managed Underlying Funds or Portfolio Companies, and such decisions, if unsuccessful, will directly adversely, perhaps materially adversely, affect the returns achieved by the Trust. GCM will often not be aware of the particular Portfolio Companies in which a third-party managed Underlying Fund is invested, and Investors themselves will have no direct dealings or contract relationship at the third-party managed Underlying Fund or Portfolio Company level.

(g) **Substantial Costs** – The Trust is subject to substantial costs, as well as to a "layering" of fees and expenses including at the level of the Trust, the GCM Funds and at the level of the Underlying Funds. These substantial costs must be offset by Portfolio gains (after reduction for incentive compensation and other advisory fees) for the Trust's net asset value not to be depleted.

(h) **Debt and Leverage Risk** – The Underlying Funds will employ leverage from time to time in a variety of ways. The Trust may borrow directly or through an intermediate entity to fund investments, pay fees and expenses or to address the timing issues associated with the acquisition of investments and re-investment of proceeds and as otherwise set forth in the Management Agreement and the Investment Management Agreement. The use of leverage may magnify the potential gains and losses achieved by the Trust or an Underlying Fund, thus impacting on the value of the Units. The use of leverage will diminish the returns to the Trust if the overall returns are less than the Trust's cost of borrowing. The utilisation of leverage will also result in fees, expenses and interest costs to the Trust. In addition, the borrowings may be secured by the assets of the Trust.

(i) **Highly Competitive Market for Investment Opportunities** – The activity of identifying, completing and realising on attractive Primary and Secondary private equity investments is highly competitive and involves a high degree of uncertainty. The Trust will be competing for investments with other investment vehicles, as well as with major financial institutions and investors.

(j) **Third-Party Underlying Investment Manager Misconduct** – The Trust will depend on the integrity and good faith of the third-party Underlying Investment Managers with which GCM places the Trust's capital. GCM will have no control over, and a strictly limited ability even to monitor, the third-party Underlying Investment Managers. Misconduct, conflicts of interest and/or simple bad judgment on the part of a single or only a very small number of third-party Underlying Investment Managers could materially adversely affect the Trust.

(k) **Interest Rate Risk** – Changes in official interest rates can directly and indirectly have an impact on investment returns. Generally, an increase in interest rates has a contractionary effect on the state of the economy and the valuation of securities. For example, rising interest rates can have a negative impact on a Portfolio Company's value as increased borrowing costs may cause earnings to decline. As a result, the company's value may fall and therefore the value of an investment of the Trust may fall.

(l) **Foreign Investment Risk** – The Trust or Underlying Funds may invest in Portfolio Companies domiciled or operating in multiple countries. Certain risks may differ from country to country. Managing these risks may increase transaction costs and adversely impact the value of the Trust's and/or such Underlying Funds' investments in certain jurisdictions.

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KEY RISKS CONTINUED

(m) **Portfolio Valuation** – Valuations of the underlying investments are expected to involve uncertainties and discretionary determinations. Third-party pricing information may not be available regarding a significant portion of investments in certain asset classes, and in some circumstances may rely on valuation models that GCM has created in order to value the assets and calculate the account value. In addition, to the extent third-party pricing information is available, a disruption in the secondary markets for investments in Underlying Funds and Co-investments may limit the ability to obtain accurate market quotations for purposes of valuing investments and calculating net asset value. Further, the liquidation values of securities and other investments may differ significantly from the interim valuations of these securities and other investments (as may the market price of the Units on the ASX from the NAV per Unit).

RISKS RELATING TO THE ALIGNMENT SHARES

(n) **Market Factors** – The performance of the Alignment Shares is strongly linked to the amount of FUM of the Pengana Group of Companies, which is subject to net fund flows and market performance.

(o) **Investment Performance Risk** – A sustained period of poor investment performance or failure to meet investment objectives for a fund operated by the Pengana Group of Companies could lead to a reduction in the amount of FUM and/or could lead to lower management fees, which would have a material adverse effect on the value of the Alignment Shares.

(p) **Ability to attract new clients and retain existing clients** – The future growth prospects of the Pengana Group of Companies are determined in part by its ability to develop and launch new funds and products and retain existing clients.

(q) **ASX Liquidity Risk** – The liquidity of trading in the Units on the ASX may be limited and may be at a substantial discount to net asset value. This may affect an Investor's ability to buy or sell Units. Investors will not be able to purchase or sell Units on the ASX during any period that ASX suspends trading of Units.

(r) **Conflicts of Interest Risk** – GCM, its affiliated entities, and its related persons are subject to certain actual or potential conflicts of interest in making investment decisions. Because GCM has different financial services businesses and manages and/or advises multiple funds, it is subject to a number of actual and potential conflicts of interest, greater regulatory oversight and more legal and contractual restrictions than those to which it would otherwise be subject if it had only one line of business or managed and/or advised only a single fund. GCM maintains policies and procedures that attempt to address actual and potential conflicts of interest. Refer to Section 18.3 of this PDS for information on how the Investment Manager will manage potential conflicts of interest. In the event that a conflict of interest arises, GCM will generally attempt to resolve such conflict according to its policies and procedures and in a fair and equitable manner, on a case-by-case basis. However, GCM will not be able to resolve all conflicts of interest in a manner that is equitable or favourable to all Investors. By investing in the Trust, each Investor will be deemed to have acknowledged and consented specifically to: (i) the existence of such actual, apparent and potential conflicts of interest, including, without limitations, those described herein; and (ii) the actions taken by GCM to address such conflicts and to the extent permitted by applicable law, to have waived any claims with respect to the existence of any conflicts of interest. It's a fundamental conflict of interest that GCM will allocate Trust capital to GCM Funds from which the GCM Group receives advisory fees including incentive compensation.

(s) **Counterparty Risk** – There is a risk that the Trust may incur a loss arising from the failure of another party to a contract (the counterparty) to meet its obligations. Counterparty risk arises primarily from investments in cash, derivatives and currency transactions. Substantial losses can be incurred if a counterparty fails to deliver on its contractual obligations.

(t) **Distribution Risk** – There may be circumstances where the Target Cash Distribution or Early Years Intended Cash Distribution may result in a reduction in the capital of the Trust. There also may be circumstances where a portion of the Trust's income may not be distributed and may instead be accumulated or deferred, and in such circumstances, there is a risk the distribution received by Unitholders in cash may be insufficient to cover a Unitholder's tax payable on the total distribution.

(u) **Performance Fee Structure Risk** – Pengana and GCM may each receive a performance fee in circumstances outlined in Section 12. These arrangements may create an incentive for Pengana and GCM to take more risk with investing the Trust's capital than may otherwise be the case.

(v) **Price and Volatility of Units on the ASX** – The market price of the Units on the ASX may not equal the underlying value of the Trust as reflected in its NAV per Unit. The Trust's Units may trade on the ASX at a discount or a premium to the NAV per Unit. Unitholders may not be able to sell their investment in the Trust at the NAV per Unit.

(w) **Valuation Risk** – as an investor in Underlying Funds, the NAV per Unit will be largely based on valuations the Responsible Entity receives from these funds. The frequency with which valuations are provided by the Underlying Funds, and accordingly incorporated into the NAV per Unit will vary. Credit funds will tend to release valuations monthly, however it is standard industry practice for private equity funds to release valuations quarterly, and such valuations may contain information that may be more than three months old. As such, there is a risk that the NAV per Unit will be different, perhaps materially, than the current value of the Units as of any particular day on which the Units are traded on the ASX.

(x) **Trust Risk** – Trust risk refers to other specific risks associated with the Trust, such as termination and changes to fees and expenses. The performance of the Trust or the security of a Unitholder's capital is not guaranteed. There is no guarantee that the Investment Strategy of the Trust will be managed successfully, or will meet its objectives. Failure to do so could negatively impact the performance of the Trust. An investment in the Trust is governed by the terms of the Constitution and this PDS, each as amended from time to time. The Trust is also governed by the ASX Listing Rules, and is exposed to the risks of listing on that platform, including such risks as the platform or settlements process being delayed or failing. ASX may suspend trading in the Units, or remove the Units from listing on the ASX. Pengana may elect, in accordance with the Constitution and the Corporations Act, to terminate the Trust for any reason.

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