Lonsec

Investment Grade

Product Review
Pengana Global Private Credit Trust

About this Review

ASSET CLASS REVIEWED	ALTERNATIVES
SECTOR REVIEWED	GROWTH ALTERNATIVES (MODERATE)
SUB SECTOR REVIEWED	PRIVATE DEBT

About this Trust

ASIC RG240 CLASSIFIED	NO
LIT REVIEWED	PENGANA GLOBAL PRIVATE CREDIT TRUST
TICKER	PCX
PDS OBJECTIVE	TO GENERATE STRONG RISK ADJUSTED RETURNS WITH A HIGH DEGREE OF CAPITAL PROTECTION AS WELL AS STABLE AND CONSISTENT INCOME.
INTERNAL OBJECTIVE	OUTPERFORM THE RBA CASH RATE (AFTER FEES) BY IN EXCESS OF 6% P.A. THROUGH THE CYCLE.
DISTRIBUTION POLICY	TARGETING A CASH DISTRIBUTION YIELD OF 7% PER ANNUM (NET OF FEES, COSTS AND TAXES INCURRED BY THE TRUST), PAID MONTHLY.
ANNUAL FEES AND COSTS (PDS)	3.4% P.A.
PERFORMANCE FEE	20% (RBA CASH RATE +6% P.A. HURDLE INC. FLOOR OF 7.5% P.A. NET OF MGNT. FEE)
RESPONSIBLE ENTITY	PENGANA INVESTMENT MANAGEMENT LIMITED

Offer information

OFFER DOCUMENT DATE	19-04-2024
MIN / MAX CAPITAL RAISING	$100M / $250M
IPO PRICE	$2.00
INITIAL NET ASSET VALUE	$2.00
EXPECTED OFFER CLOSING DATE	06-06-2024
EXPECTED LISTING DATE	20-06-2024

About the Fund Manager

FUND MANAGER	PENGANA CREDIT PTY LTD
OWNERSHIP	PENGANA CAPITAL LIMITED
ASSETS MANAGED IN THIS SECTOR	$509.6M (DECEMBER 2023)
YEARS MANAGING THIS ASSET CLASS	5

Investment Team

PORTFOLIO MANAGER	SCOTT WILKINSON & ADAM RAPEPORT
INVESTMENT TEAM SIZE	4
INVESTMENT TEAM TURNOVER	N/A
STRUCTURE / LOCATION	SYDNEY

Investment process

STYLE	INCOME
BENCHMARK	RBA CASH RATE
TYPICAL NUMBER OF MANAGERS	20
CURRENCY APPROACH	HEDGED
PERMITTED INVESTMENTS	PRIVATE CREDIT, LIQUID CREDIT AND CASH
LEVERAGE	PERMITTED AT BOTH TRUST AND UNDERLYING FUNDS LEVEL

Trust rating history

APRIL 2024	INVESTMENT GRADE

What this Rating means

The **'Investment Grade'** rating indicates that Lonsec has conviction the financial product can generate risk adjusted returns in line with relevant objectives. However, if applicable, Lonsec believes the financial product has fewer competitive advantages than its peers.

Scope of this rating

- Lonsec has used a holistic approach in forming an opinion on this Listed Investment Vehicle's (LIV) ability to meet its stated investment objectives. The rating model includes an assessment of the underlying investment capability in addition to the vehicle's effectiveness. When assessing the underlying investment capability Lonsec has relied upon its Managed Funds research process. Vehicle effectiveness considers a range of characteristics in combination with empirical observations.
- The rating should not be considered, or in any way interpreted, as Lonsec's forward-looking opinion or otherwise on the 'intrinsic value' of the LIV and whether Lonsec believes this to be 'overvalued' or 'undervalued' relative to the prevailing traded price.
- The Lonsec rating will expire upon the listing of the LIV on the Australian Stock Exchange (ASX).

Strengths

- The Trust, once fully deployed, is expected to be diversified across single issuers and strategies mitigating default risk inherent in private debt portfolios.
- The seeding of the Master Fund in June 2022 should help support the Trust's timely capital deployment.
- Mercer has strong manager research capabilities with significant scale, experience and resources. Further, their Private Debt team has good 'on-the-ground' presence in key regions.
- The Trust's committee based decision making process reduces key person risk.
- Exchange listing provides investors with the potential for daily liquidity in an illiquid asset class.
- The NAV stabilisation mechanism is differentiated and should prove useful in benign market periods.

Weaknesses

- The investment structure is complex but is designed to provide the economic exposure to private credit.
- The NAV stabilisation mechanism is untested, particularly during periods of market stress where the Trust may trade at notable discounts to NAV. The mechanism also introduces redemption risk to a vehicle that ordinarily would not face this.
- Additionally, ongoing and persistent redemptions of capital would reduce the capital base and could

ANALYST: HEWAD SAFI | APPROVED BY: RUI FERNANDES

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impair the effectiveness of the Trust as a listed vehicle.

- The fee load is high but generally expected for exposure to private debt securities.
- Investment decision making may be slowed given the multi-layer approval process. However, this is a feature common in committee based governance processes.

Trust Risk Characteristics

	LOW	MODERATE	HIGH
BUSINESS SUSTAINABILITY RISK		●	
CAPITAL VOLATILITY			● (moderate-high)
CREDIT RISK			●
INTEREST RATE RISK	● (low-moderate)		
FOREIGN CURRENCY EXPOSURE	● (low-moderate)		
LEVERAGE RISK			●
SECURITY LIQUIDITY RISK			● (moderate-high)
SECURITY CONCENTRATION RISK	● (low-moderate)		
REDEMPTION RISK			● (moderate-high)

Risk categories are based on Lonsec's qualitative opinion of the risks inherent in the financial product's asset class and the risks relative to other financial products in the relevant Lonsec sector universe.

BIOmetrics

Aggregated risks

	1	2	3	4	5	6	7
STD RISK MEASURE						●	

A Standard Risk Measure score of 6 equates to a Risk Label of 'High' and an estimated number of negative annual returns over any 20 year period of 4 to less than 6. This is a measure of expected frequency (not magnitude) of capital losses, calculated in accordance with ASFA/FSC guidelines.

	LOW	MODERATE	HIGH
RISK TO INCOME			●

Features and benefits

	LOW	MODERATE	HIGH
COMPLEXITY			●
ESG		●	

Fee profile

	LOW	MODERATE	HIGH
FEES VS. UNIVERSE			●
FEES VS. ASSET CLASS			●
FEES VS. SUB-SECTOR			● (moderate-high)

Fee BIOmetrics are a function of expected total fee as a percentage of expected total return.

What is this Trust?

- The Pengana Global Private Credit Trust ('the Trust' or ASX: PCX) is a closed-end Listed Investment Trust ('LIT') structured to trade on the ASX. The Trust is designed to provide diversified exposure to private credit via a portfolio of underlying managed funds that invest in direct lending, structured credit, specialty finance and credit opportunities / special situations. PCX aims to outperform the RBA Cash Rate (after fees) by 6% p.a. through the cycle. Additionally, it aims to provide regular monthly distributions at a target yield of 7% p.a.

The structure

- The Trust has a complex structure as a 'feeder' vehicle for the Pengana Private Credit Master Fund (the Master Fund), a Cayman Islands domiciled vehicle. It will gain exposure through the holding of 'profit participating notes' (PPNs') issued by the Pengana Private Credit Feeder Fund ('Feeder Fund'). PPNs are debt securities that are designed to provide an economic exposure to the underlying investments but no direct ownership rights.
- The Master Fund gives the Trust access to four different unit classes with standalone investment objectives. Currency hedging is completed at the Feeder Fund level.
- Pengana Credit Pty Ltd ('Pengana Credit') is the Investment Manager and established for the management of private credit strategies. Pengana Investment Management Limited ('PIML') is the Responsible Entity. PIML appointed Pengana Capital Limited ('Pengana Capital') as the Manager which has subsequently appointed Pengana Credit as the day-to-day investment manager.
- Importantly, Pengana Credit also serves as the Investment Manager for the Master Fund and the Feeder Fund. Pengana Credit has appointed Mercer Consulting (Australia) Pty Ltd ('Mercer') to provide investment research, portfolio construction, risk monitoring and portfolio reporting.
- Pengana Credit, PIML and Pengana Capital all form part of the Pengana Capital Group Limited (the Pengana Group), an ASX-listed company (ASX: PCG).
- The Manager's PDS, dated 19 April 2024, discloses Annual Fees and Costs ('AFC') totaling 3.40% p.a. This value comprises (1) Management Fees and Costs of 2.59% p.a. (inc. indirect costs) and (2) Performance fee estimate of 0.71% p.a. and (3) Net Transaction Costs of 0.10% p.a. In line with RG97, some fees and costs have been estimated by the issuer on a reasonable basis. Actual fees and costs may vary to these estimates, particularly with respect to net transaction costs and performance fees.
- A performance fee of 20% over a hurdle rate of RBA Cash Rate +6% p.a., with a floor of 7.5% p.a. (net of Responsible Entity & Management fee) is charged. Further, the Trust has more than one layer of management and performance fees. The Trust's investments including Underlying Funds are subject to both management and performance fees.
- The costs associated with listing the Trust are being borne by the Pengana Group. No other incentives to participate in the initial capital raise are being offered. However, PIML has included a differentiated buy-back / redemption feature which is aimed at helping minimise traded discounts to NAV.
- As a closed-end listed vehicle, the Trust's traded unit price may not match the respective NAV. PIML will apply a NAV stabilisation mechanism for situations where there is a discount. PIML intends to make an offer to buy-back 5% of the issued capital of the Trust at the NAV per unit at the time. This offer will be made on a quarterly basis subject to the 10/12 Limit and unit holder approval and scaling. This mechanism will be funded by Trust assets and any units bought-back will be cancelled immediately. The Buy-Back Price will effectively consist the NAV at the time including an adjustment for missed distributions between unit cancellation and the payment of

proceeds. A three month notice period is required for buy-back requests to provide sufficient lead time to liquidate investments in order to maintain or replenish cash buffers in anticipation of further buy-back requests.

The investment strategy

- The Trust seeks to generate strong risk adjusted returns with a high degree of capital protection as well as stable and consistent income via exposure to a diversified portfolio of global private credit investments, liquid credit investments and cash. The Trust intends to achieve these objectives by investing through a multi-manager approach to access several private credit managed funds, mandates and vehicles (the 'Underlying Funds').
- The Trust allocates funds across four key categories / unit classes being:
  - Income (60%): direct lending managed funds with an income focus via cash coupons;
  - Balanced (20%): managed funds with a broad exposure to private credit opportunity set and higher contractual returns;
  - Total Return (10%): managed funds that invest in special situations characterised by equity-like returns via debt investments; and
  - Cash (10%): fixed income securities or managed funds with at least annual liquidity, senior security and historically low volatility.
- While Trust and the Underlying Funds may employ leverage, the primary source of leverage is expected to be from the Underlying Funds. The intention is to not to exceed aggregate leverage, inc. Underlying Funds, of 1.5x NAV. Currency hedging may, technically, give rise to leverage and this is not intended to exceed 0.25x NAV. The Trust has disclosed it's intention to not exceed an overall leverage ratio of 1.75x of the NAV.
- The Pengana Group secured seed funding for this initiative which was deployed into the Master Fund in June 2022. This was used mainly to establish the Total Return category which Pengana Credit noted has a longer-lead time for deployment compared to the other categories. This is expected to help ensure that capital raised during the IPO will be deployed in a timely manner once available.

Using this Trust

This is General Advice only and should be read in conjunction with the Disclaimer, Disclosure and Warning on the final page.

- Lonsec notes that the Manager has produced a Target Market Determination ('TMD') which forms part of its design and distribution arrangements for the Trust. Lonsec has collected the TMD that has been provided by the Manager and notes that this should be referred to for further details on the Target Market Summary, Description of Target Market and Review Triggers.
- Lonsec suggests that PCX should only be considered for those clients that are seeking yields greater than cash or cash-like instruments and prepared to accept greater credit risk. Lonsec notes that the credit risk taken by the Trust is generally not reflected in the volatility of the underlying NAV. A key factor being that underlying private debt market investments in the Trust typically have less frequent price discovery. From a total portfolio perspective, Lonsec recommends an allocation to this type of product should be made from growth assets rather than defensive assets.
- The Trust invests in assets which are non-A$ denominated with a currency hedging overlay applied at the portfolio level. The returns of the Trust will therefore be mostly mitigated from fluctuations in the Australian dollar and other currencies held.

Suggested Lonsec risk profile suitability

SECURE	DEFENSIVE	CONSERVATIVE	BALANCED	GROWTH	HIGH GROWTH
		●	●	●	

For guidance on appropriate asset allocations and risk profiles, refer to the latest Lonsec Strategic Asset Allocation Review and Risk Profile Definitions on our website.

Changes Since Previous Lonsec Review

- This is Lonsec's initial review of the Trust.

Lonsec Opinion of this Trust

People and resources

- Nehemiah Richardson is Pengana Credit's Chief Executive Officer and the strategy lead who is ultimately responsible for the Trust. That said, decisions throughout the portfolio construction process is largely team/committee based and decentralised. Scott Wilkinson (Portfolio Manager – Mercer) manages the Trust alongside Adam Rapeport (Portfolio Manager – Pengana). Rapeport and Wilkinson are supported by Nick Griffiths (Pengana) and Rebecca Jacques (Mercer). The aforementioned key decision makers are considered to have the appropriate experience in managing this strategy. These individuals are well supported by Mercer's private debt and manager research teams along with, to a lesser extent, Pengana Credit's investment risk, operational and legal teams.
- Given the small size of the investment team, Pengana relies on the services of Mercer when formulating their investment strategy, asset allocation and manager selection. Mercer provides its expertise in covering asset class reviews and modelling capabilities, as well as providing access to reputable private credit managers. Lonsec favourably views the relationship with Mercer for leveraging its significant global resources which supplements Pengana's internal due diligence.
- The Investment Consulting Group ('ICG') is the core forum for the ongoing investment management of the Trust. The ICG meets monthly and comprises members from Pengana, Pengana Credit and Mercer. The ICG is sufficiently resourced to carry out idea generation responsibilities.
- The Investment Committee ('IC') meets as required but at least quarterly and approves recommendations made to them by the ICG. IC members include Richardson, Griffiths, Jacques and Wilkinson. As previously noted, members of the IC have appropriate experience however, Lonsec will look to monitor how these individuals work together as a team/committee.

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- Mercer's Private Debt (PD) team drives the manager research capability with the support of Mercer's in-house manager research/ratings team. The PD team is a global team comprised of 15 individuals whereby primary coverage is aligned with their location, with the PD Investment Committee providing oversight and amalgamating the views from each region. The team is structured this way to give a more global perspective, encourage a rich and insightful peer review process, and facilitate cross pollination of ideas and depth of insight. The division of primary coverage on regional lines is intuitively appealing and helps to build 'on-the-ground' expertise in PD.
- Given the decentralised structure of the investment team, coupled with the committee-based decision-making, Lonsec considers key person risk to be relatively low-to-moderate

Research and portfolio construction

- The Manager attempts to blend a selection of underlying fund managers, exposing investors to a broad range of private debt investment strategies. Lonsec notes a key philosophy of the Manager is to provide investors access and exposure to strategies not available in traditional asset classes. The Trust's aim can therefore be considered to provide yield and act as a diversifier in an investor's portfolio.
- Although Mercer predominantly drives the research and portfolio construction process, investment ideas can be generated from both Pengana and Mercer during the Investment Consulting Group ('ICG') forum. The ICG meet monthly to discuss macro views, portfolio composition, manager monitoring and legal/operational considerations. Ideas stemming from ICG meetings are filtered through to the Investment Committee ('IC') for final approval which requires a unanimous vote. This due diligence process appears to be thorough with sufficient checks in place to ensure the Underlying Funds are fit for purpose. That said, such an approach can lead to slower lead times regarding the implementation of investment ideas.
- Mercer's research process aims to establish a narrow universe of funds that have been filtered by various in-house criteria, as well as being highly rated by Mercer. Lonsec views the depth and breadth of Mercer's domestic and global coverage positively, as it facilitates research on a broader suite of underlying managers and strategies than would otherwise be possible.
- Mercer's manager research and portfolio construction methodologies are well regarded, and the organisation is well-resourced to undertake in-depth global manager research. Mercer takes a holistic view on four key factors being business management, alignment, strategy and track record with ESG being considered separately. The Underlying Funds must also pass the operational due diligence conducted by Mercer. Specifically for private market managers, Mercer also assesses fund managers' ability to source investment opportunities which is considered a value-add in the research process given sourcing capabilities can drive the quality of the underlying funds' holdings.
- The Trust's Balanced and Income categories contain Mercer SMA solutions or vehicles offered by managers for Mercer's use. Lonsec takes comfort in the internal objectivity of the manager selection and portfolio construction process. Lonsec will look to monitor the Manager's willingness to terminate related capabilities where warranted in future reviews.

ESG Integration

- At the corporate level Lonsec views Pengana's overall ESG policy framework and disclosure as lagging peers. The Manager has an articulated commitment to their integration of ESG within their investment process with evidence of a policy framework and improved public positioning. The ESG policy is publicly available and remains rather generic compared to peers. Pleasingly the policy lightly touches on the engagement framework, however no reporting on engagement outcomes is publicly available. While the Manager does not provide any details on their proxy voting policy, voting records for certain funds are publicly available. With that said, voting/engagement has less bearing for private credit funds.
- Lonsec's review of ESG integration for Multi Asset strategies such as this, reviews only the ESG components of the selection underlying strategies or managers, or the extent to which ESG impacts asset allocation. It does not review the ESG integration at the level of each of the underlying funds or strategies.
- While the Manager does have some minimum standards for Manager selection and monitoring they are seen by Lonsec as being quite modest. There is regular monitoring of the ESG characteristics of the underlying securities performed and ongoing monitoring of the policies of the underlying managers is performed regularly.
- There are only limited signs that company engagement on ESG issues is a component of the Manager's investment approach.
- Compliance Monitoring of ESG factors is deemed adequate however overall transparency provided to investors is lagging.

Risk management

- Both Mercer and Pengana are considered to have adequate risk management processes, with separate compliance functions and regular monitoring of underlying investment managers and the overall Trust. Pleasingly, these teams are separate from the manager selection team and perform detailed audit-like due diligence functions aimed at ensuring potential managers meet the agreed operational and compliance standards.
- The Trust intends to be well diversified across sub-asset classes, regions, managers and strategies to manage risk associated with private debt at a portfolio level. There are also reasonable limits imposed on certain strategies (e.g. specialty finance, structure credit etc.) sub-investment grade issuers.

Fees

- The Trust is disclosing Annual Fees and Costs of 3.40% p.a. Lonsec considers the overall fee load, which includes more than one layer of management and performance fees (applicable at the Trust, Manager and underlying fund levels) to be high compared to private credit peers. That said, peers in this space typically directly invest in private credit securities rather than a multi-manager approach. As such, the Trust does not have any direct peers currently rated by Lonsec.

Product

- The Trust is an Australian managed investment scheme (MIS) registered with ASIC. The Responsible Entity is PIML who is responsible for operating and managing the MIS, holds an AFSL and as such is required to comply with its AFSL and RE obligations as outlined under the Corporations Act. The use of external REs is Lonsec's preferred operating model. Furthermore, the RE has employed a tier 1 custodian and administrator.
- Moreover, while the product structure is complex, this is considered a feature of the asset class.
- The seeding of the Master Fund in June 2022, e.g. predominantly the Total Return category, is viewed positively as these underlying investments are understood to require greater time for deployment. This should help ensure that the Trust capital is deployed in a timely fashion as soon as practicable.
- The Trust's NAV stabilisation mechanism is viewed as a differentiated feature in Listed Investment Trusts but is untested. While it is anticipated that this should help support the closer alignment of the per unit traded price and NAV, particularly during benign market periods, this key feature is untested and outcomes uncertain. Moreover, Lonsec wary that during periods of market stress there may be heightened demand for this feature which may cause it to be overwhelmed and effectively invalidated. Additionally, the potential for ongoing and persistent redemptions made available by the mechanism has the strong potential to erode the capital base of the Trust which can detract from its effectiveness as a listed vehicle.
- The minimum size for the offering sought by the Responsible Entity has been scaled back to $100m from $150m in the PDS lodged with ASIC. Lonsec is mindful that vehicles with relatively low market capitalisations may face more challenging listed market dynamics, such as reduced liquidity, relatively to larger peers.

Funds under management

- The Trust is due to be listed on the ASX in June 2024 with the offer opening date set for the 20th of May 2024. The maximum subscription amount for the Trust offer to investors is capped at $250m.

Performance

- The Trust does not have a performance track record. The Master Fund likewise was only seeded in June 2022 and has been in deployment mode, it has a very limited track record itself.

Overall

- The Trust has been provided with an '**Investment Grade**' rating. The Trust is anticipated to have a well diversified portfolio once capital is fully deployed, with deployment expected to occur in a timely manner. The diversification across private credit strategies, number of loans and borrowers helps minimise the impact of single issuer default risk. Managers with which the Trust invests are selected by Mercer's well established research capabilities including an on-the-ground presence in key regions. Positively, key person risk is relatively low given the collegiate and committee-based investment decision making process.
- Detracting from the rating are the high costs associated with accessing private credit exposure via the Trust. The NAV stabilisation mechanism, a differentiated and key feature of the offering, is untested particularly during periods of market stress. Lonsec is wary that there is the potential for heightened demand for this feature during periods of market stress which can overwhelm and invalidate it. The inclusion of a redemption feature to this type of vehicle also has the strong potential to erode the capital base and detract from the vehicle's effectiveness. Further, investment decision making may be slow given the multi-layered approval process.

People and Resources

Corporate overview

Pengana Capital Group is a diversified funds management group with distinct investment strategies that aim to deliver superior long-term risk-adjusted returns to investors, with a focus on capital preservation. Pengana was founded in 2003 and is headquartered in Sydney, with smaller offices in Melbourne, Brisbane and Adelaide. As at 30 June 2023, Pengana had $3.1bn in assets under management (AUM).

Pengana employs over 50 staff including approximately 17 investment professionals across offices in Sydney and Melbourne. The directors and staff currently own circa 41% of the business. The investment team responsible for this Fund is based in Sydney and Melbourne.

Additionally, key members of the team are aligned to the headline business via the allotment of shares under loan share plans.

Key events

19 APRIL 2024	LODGEMENT OF THE PDS WITH ASIC
20 MAY 2024	OFFER OPENING DATE
6 JUNE 2024	BROKER FIRM OFFER CLOSING DATE
6 JUNE 2024	PRIORITY OFFER CLOSING DATE AND GENERAL OFFER CLOSING DATE
13 JUNE 2024	EXPECTED SETTLEMENT DATE
14 JUNE 2024	EXPECTED DATE OF THE ALLOTMENT OF UNITS UNDER THE PRIORITY OFFER, BROKER FIRM OFFER AND GENERAL OFFER
17 JUNE 2024	EXPECTED DATE FOR DISPATCH OF HOLDING STATEMENTS
20 JUNE 2024	TRADING OF UNITS ON THE ASX COMMENCES (ON A NORMAL SETTLEMENT BASIS)

Pengana Global Private Credit Trust

Size and experience

NAME	POSITION	EXPERIENCE INDUSTRY / FIRM
NEHEMIAH RICHARDSON	MANAGING DIRECTOR AND CEO – PENGANA CREDIT	34 / 1
NICK GRIFFITHS	CIO – PENGANA CAPITAL	32 / 20
ADAM RAPEPORT	PORTFOLIO MANAGER – PENGANA CREDIT	27 / <1
SCOTT WILKINSON	HEAD OF PRIVATE DEBT ASIA PACIFIC – MERCER	19 / 5
REBECCA JACQUES	WEALTH MANAGEMENT HEAD OF PORTFOLIO SOLUTIONS – MERCER	33 / 5

Nehemiah Richardson is the strategy lead and is responsible for product development, sales/marketing, strategies and operational management, stakeholder management and is a member of the IC and ICG. Richardson has a solid background in financial services having previously held senior positions at Merrill Lynch, NAB, J.P. Morgan and Latitude Financial Services.

Nick Griffiths is responsible for the Trust's governance, risk and compliance, asset/liability monitoring and is also a member of the IC and ICG. Griffiths is well-experienced in the funds management space having been at Pengana Capital for over 20 years and previously at Aon Consulting.

Adam Rapeport is responsible for the Trust's hedging operations as well as its liquidity and cash management. Rapeport is well-credentialled in this space given he has held similar roles at Investec Bank Australia and Bank of Queensland.

Scott Wilkinson is responsible for the portfolio management duties of the Trust i.e. leads the manager research process, development of portfolio plans, liquidity planning and ALM, and is also a member of the IC and ICG. Wilkinson has the appropriate experience in managing the Trust's assets given he has worked in the alternatives sector over the last 15 years.

Rebecca Jacques assists Wilkinson in his portfolio management duties. Jacques predominantly has a manager research and consulting background dating back to 1997.

Mercer has a Private Debt team of 15, structured into regional responsibilities, of which Wilkinson is a key member. This team drives the manager research capability with the support of Mercer's in-house manager research/ratings team.

Investment team remuneration

The remuneration of the Pengana Credit professionals comprises salary and bonus potential.

Research Approach

Overview

RESEARCH PHILOSOPHY	BLENDED QUALITATIVE AND QUANTITATIVE RESEARCH
NO. FUNDS IN UNIVERSE	3,700
NO. FUNDS FULLY RESEARCHED	411
RESEARCH FACTORS	TEAM, PERFORMANCE, STRATEGY, ESG, SOURCING CAPABILITIES
RESEARCH INPUTS	VARIOUS – INCLUDING MANAGER MEETINGS, PORTFOLIO ATTRIBUTION, ASSET CONSULTANT

Investment ideas are initially screened via Mercer's proprietary traffic light system which considers the appropriateness of a fund for one of the four key classes taking into consideration deployment, return/spread profile, payout ratio, mark to market volatility and structural fund features. Such ideas are sourced via Mercer's global network, its current thinking on investment strategy design, its modelling capabilities, and its formal review process of asset classes, which include the forward-looking level of conviction in incumbent managers relative to potential managers. Pengana also has the ability to provide input into investment ideas.

Ideas are discussed at monthly ICG meetings which consider issues such as:

- Lending environment, incorporating macro-economic and specific strategy factors (Mercer and Pengana);
- Pipeline management, including fund characteristics, timing and capacity, implications for portfolio composition and diversification (Mercer);
- Investment due diligence and ratings reviews (Mercer);
- Operational, legal and tax due diligence (Mercer and Pengana);
- Manager monitoring and performance, including current positions, portfolio risk metrics and management of impaired assets (Mercer);
- Cash flow and asset liability modelling (Mercer and Pengana); and
- Current and future deployment schedules (Mercer); and
- Portfolio guidelines (Mercer and Pengana).

Once a manager/strategy is approved, it must go through the Mercer rating process whereby each investment is assessed based on its merits across five factors being Business Management, Alignment, Strategy and Track Record with ESG and sourcing capabilities being additive considerations. All factors are assessed holistically however, investment ideas are rejected if it is scored low on any one factor.

Subsequently, strategies must be endorsed by Mercer's Private Debt Investment Committee before going through to the IC for final approval. The IC comprises two representatives from Mercer and Pengana respectively, which require a unanimous vote for investment approvals.

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ANALYST: HEWAD SAFI | APPROVED BY: RUI FERNANDES

Pengana Global Private Credit Trust

Portfolio Construction

Overview

FUND BENCHMARK	RBA CASH RATE
RETURN OBJECTIVE (INTERNAL)	OUTPERFORM THE BENCHMARK BY 6% P.A.THROUGH THE CYCLE
PORTFOLIO MANAGEMENT APPROACH	MULTI-MANAGER
INVESTMENT STYLE	CORE/STYLE NEUTRAL
TYPICAL NUMBER OF MANAGERS	20

Investment proposals are presented to the IC with a suggested investment sizing, as well as commentary on portfolio fit. Sizing recommendations and portfolio fit considerations require the support of both Pengana and Mercer and will consider characteristics including the risk/return profile, duration, liquidity profile, the current portfolio allocation and diversification when seeking to assess the Trust's investment size.

The target asset allocation for the Trust is managed within ranges across Income (50-70%), Balanced (10-30%), Total Return (0-20%) and Cash (0-20%).

Risk Management

Risk limits

SEPARATE RISK MONITORING	YES
SUBORDINATED DEBT	31% MAX
COUNTRY	0-70% DEPENDING ON THE COUNTRY
CASH	20%

The Trust is subject to a number of broad portfolio limits although is unconstrained at the industry level.

Debt seniority limits:

- Senior (1st Lien including unitranche) 100%;
- Subordinated (2nd Lien) 31%; and
- Equity & Equity-Linked 16%.

Investment strategy limits:

- Direct Lending 100%;
- Specialty Finance 54%;
- Structured Credit 52%;
- Credit Opportunities 11%; and
- Other 28%.

Regional limits:

- Australia 55%;
- North America 70%;
- Western Europe including UK 70%; and
- Asia, Latin America, and rest of the world 21%.

Risk monitoring

In the quarterly portfolio reporting, Mercer highlights both funds and underlying portfolio companies that are key value drivers and detractors in the portfolio, which illustrates concentration risk in a client's portfolio. Additionally, where more than one fund manager invests in the same company, Mercer aggregates exposure to a single portfolio company across funds within the portfolio, which provides a comprehensive view of concentration and performance metrics.

Formal monitoring and reporting as part of the investment process is managed by Mercer's dedicated Risk Management team in collaboration with the Investment team professionals. Mercer's Risk management team uses sophisticated software powered by FIS Investran to monitor underlying funds and portfolio investments at all levels: at the client level, fund partnership level, single asset level, and the transactions between these levels. This includes the ongoing tracking of cash flows, the ongoing tracking of activity at the underlying manager (i.e. senior professional departures, term extensions, etc.) and the quarterly tracking of the underlying investment activity and the reconciliation of information to the underlying manager provided financial statements and portfolio updates.

Currency management

The Manager intends to hedge the return from the Underlying Funds into AUD. The Portfolio will be exposed to foreign exchange fluctuations, principally in the AUD/USD and AUD/EUR exchange rates. To mitigate this risk, the Portfolio will seek to hedge these exposures. There are a number of hedging options available. The selected method will depend on prevailing market conditions however, hedging activity will primarily be implemented through the use of forward foreign exchange contracts. The relevant hedge will be based upon an estimate of the net asset value of the Portfolio of this class of note on each Valuation Day. Hedging can, during periods of extreme volatility, cause cash outflows due to collateral or margining agreements.

Risks

An investment in the Trust carries a number of standard investment risks associated with international investment markets. These include economic, market, political, legal, tax and regulatory risks. Investors should read the PDS before making a decision to invest or not invest. Lonsec considers the major risks to be:

Investment risk

the value of an investment in the Trust and/or the Trust's investments may fall or perform poorly in the short or long term for a number of reasons. An Investor is exposed to these risks through the life of their holding of Units in the Trust and through the Trust's investment strategies and policies.

Credit/default risk

One or more assets to which the Trust is exposed may decline in price or fail to pay interest or principal when due because the credit counterparty or borrower experiences a decline in its financial status. While there are a number of strategies that may be employed by the Underlying Managers to manage losses, there is no assurance that they will be successful.

Currency Risk

The Trust invests in assets that are denominated in non-A$ currencies. The Trust is managed on a fully hedged basis to reduce the impact of currency movements on overall performance. However, market movements and cash flows may move the Trust away from a fully hedged position.

Derivative risk

The Trust makes use of derivative contracts at the underlying manager level, typically to hedge market risks. Derivative contracts are subject to certain risks, including market risk, counterparty risk (risk that a counterparty fails to perform their contractual obligations), and operations risk (risk of failure of internal controls). The only derivatives expected to be used at the Trust level are currency forwards which are used for the purpose of hedging currency exposure.

Counterparty risk

The use of derivatives in the underlying portfolios gives rise to counterparty risk. The Trust does not directly engage in derivative counterparties, however, the underlying portfolios may engage with derivative counterparties.

Leverage risk

Both the Manager and the underlying investment managers may use derivatives or borrow to create gearing/leverage, which at times may be substantial. The amount of gearing depends on the manager's investment strategy. The use of leverage may magnify the Trust's losses and gains.

Liquidity/redemption risk

The Trust is a closed-end listed vehicle. These vehicles ordinarily do not facilitate redemptions outside of offering uncertain buy-backs. The Trust, however, has a NAV stabilisation mechanism, funded by Trust assets, where a proportion of the Trust's units will be bought back and cancelled on a quarterly basis. Prospective investors should consider the features of this mechanism carefully.

Pengana Global Private Credit Trust

Glossary

Click here for the glossary of terms.

About Lonsec

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