MST Access
A research platform of MST Financial

14 June 2024

Leading Innovation in Private Credit

Equity Research Australia
Diversified Financials

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NEED TO KNOW

- **Pengana has launched its third private credit product, 'TermPlus', private credit term accounts for retail customers.**
- **TermPlus will aim to deliver target rates of 7.35% over 1 year, 8.00% p.a. over 2 years, and 8.50% p.a. over 5 years.**
- **Retail Listed Investment Trust IPO has closed, raising $160m. Expected to begin trading on the 21st of June.**

TermPlus accounts live: PCG has delivered on its third product from its flagged four investment offerings within its private credit business. Its TermPlus accounts are now live and targeting returns of up to 8.5% over 5 years and include layers of protection that overlay the product to help withstand any potential decrease in the value of a customer's term account.

Innovative listed investment trust (PCX) expected to begin trading on 21st of June: Pengana announced to the market earlier this week that its IPO for PCX has closed, raising ~$160m in applications and commitments. Settlement is expected to occur on the 14th of June, with units expected to trade on the ASX on the 21st of June.

Investment Thesis

Unique Private Credit business only needs one bucket to fire: We see value in the unique product set that Pengana has created, and we think that with a strong distribution channel, could mean significant sustained inflows.

Cracking the Funds Management Code: It is not immediately obvious, but PCG's product innovation with its Global Private Credit offering is likely to be transformational for the Group. PCG has created a globally scalable product by utilising its industry knowhow, relationships, but more importantly – understanding a competitive advantage PCG has, including its retail distribution.

By doing so, PCG is able to deliver a multi-pronged product with attractive economics, with immediate impact. The likely success here may be a precursor for other product innovation in the Group, marking a new era for the firm (which we do not see as fully appreciated yet, but a big part of the investment opportunity in PCG).

Upside to performance fees: Performance fee revenue is now coming off a low base. With PCG expecting its group fee margin to move back to its long-term average, and funds expected to hit high-water marks over the next 12-24 months, we may see material revenue from performance fees over the medium-long term.

Valuation

We have upgraded our underlying EPS by 10.0%, 2.9%, and 2.7% for FY24, FY25, and FY26 respecitvely. The changes are driven by stronger than expected monthly FUM over 3Q24. Based on the above changes, we lift our valuation to $1.93 (previously $1.85).

Risks

A summary of our key risks are available on page 9 of this report.

PENGANA CAPITAL

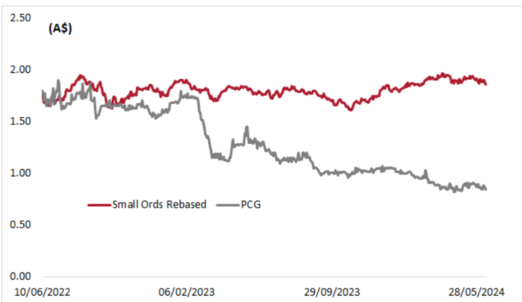
Pengana Capital Group is a fund manager who is a leading Australian provider of premium, value added products focused on the higher-end retail market (advisors and self managed superannuation funds) and high net worth individuals operating for over 20 years with around A$3bn of funds under management. It has a unique funds management business model using both inhouse teams and joint ventures with offshore groups.
It runs robust, scalable and technologically advanced "institutional grade infrastructure". www.pengana.com

Valuation	**A$1.93** *(from A$1.85)*
Current price	**A$0.85**
Market cap	**A$92.8m**
Cash on hand	**A$10.7m**

Upcoming Catalysts / Next News

Period	
21st June 2024	Listed Investment Vehicle Trading
1H25	Tailored Term Accounts
August 2024	FY24 Result
Monthly	FUM Updates

Share Price (A$)



Source: FactSet, MST Access

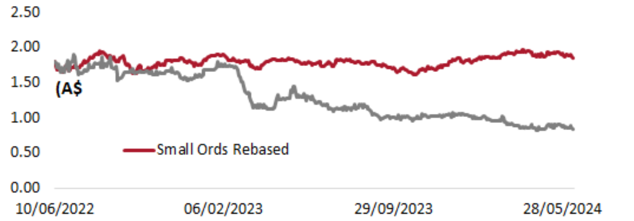
Figure 1: Financial Summary

Pengana Capital

Year end 30-June

MARKET DATA		
Price	A$	0.85
Valuation	**A$**	**1.93**
52 week low - high	A$	0.82 - 1.34
Market capitalisation	**A$m**	**92.8**
Enterprise value	A$m	83.4
Shares on issue (diluted)	m	109.8
Options / rights	m	0.0
Other equity (treasury shares)	m	-26.7
Shares on issue (basic)	m	83.5

12-MONTH SHARE PRICE PERFORMANCE



INVESTMENT FUNDAMENTALS		FY23A	FY24E	FY25E	FY26E	FY27E
EPS - adj. basic	cps	5.1	4.6	6.3	9.3	12.6
EPS - reported diluted	cps	-0.4	0.1	2.8	5.2	7.7
EPS - adj. diluted	**cps**	**3.9**	**3.5**	**4.8**	**7.1**	**9.6**
EPS growth	%	*-80%*	*-9%*	*36%*	*49%*	*34%*
PE	x	22.0	24.2	17.8	12.0	8.9
DPS	cps	3.0	1.0	3.6	4.7	6.3
Franking	%	*100%*	*100%*	*100%*	*100%*	*100%*
Dividend yield	%	*4%*	*1%*	*4%*	*6%*	*7%*
Payout ratio (adj. NPAT)	%	*78%*	*29%*	*75%*	*66%*	*66%*
Operating cash flow per share	cps	0.1	0.4	4.3	7.6	9.7
Enterprise value	$m	78.6	83.4	79.0	76.5	72.5
EV/Total Revenue	x	2.2	2.4	1.8	1.4	1.1
EV/EBITDA	x	21.2	22.7	12.1	7.3	5.0
NAV per share	A$	0.93	0.91	0.92	0.95	1.00
Price / NAV	x	0.91	0.94	0.92	0.89	0.85
NTA per share	A$	0.78	0.79	0.83	0.85	0.90
Price / NTA	x	1.09	1.08	1.03	0.99	0.94

INVESTMENT FUNDAMENTALS		FY23A	FY24E	FY25E	FY26E	FY27E
FuM	$m	3,050	3,376	3,707	4,054	4,477
Management fees / FuM	%	*1.14%*	*1.13%*	*1.09%*	*1.08%*	*1.10%*
Performance fees / FuM	%	*0.00%*	*0.00%*	*0.13%*	*0.30%*	*0.40%*
Revenue / FuM	%	*1.14%*	*1.13%*	*1.22%*	*1.38%*	*1.50%*
Cost to income ratio	%	*89.7%*	*89.6%*	*84.9%*	*80.3%*	*77.1%*
ROE - reported	%	*5.1%*	*5.0%*	*6.9%*	*10.0%*	*12.9%*
Net debt	A$m	-14.2	-9.4	-13.8	-16.3	-20.3
Interest cover	x	-0.3	-5.6	-23.0	-65.1	-150.1
Gearing (net debt / EBITDA)	x	-3.83	-2.57	-2.11	-1.54	-1.39
Leverage (net debt / invested capit	x	-0.22	-0.14	-0.22	-0.26	-0.32

DUPONT ANALYSIS		FY23A	FY24E	FY25E	FY26E	FY27E
Net Profit Margin	%	*-1.4%*	*0.3%*	*7.0%*	*10.6%*	*13.3%*
Asset Turnover	x	0.36	0.40	0.50	0.60	0.69
Return on Assets	%	0.00	0.00	0.04	0.06	0.09
Financial Leverage	x	1.19	1.15	1.13	1.13	1.14
Return on Equity	%	*-0.6%*	*0.1%*	*4.0%*	*7.2%*	*10.4%*

HALF YEARLY DATA		FY23A	FY24E	FY25E	FY26E	FY27E
Management fees	A$m	36.0	35.3	38.7	42.0	46.7
Performance fees	A$m	0.0	0.0	4.5	11.6	17.0
Total fee revenue	**A$m**	**36.0**	**35.3**	**43.2**	**53.6**	**63.8**
Net fund direct expenses	A$m	2.9	3.1	3.3	3.4	3.6
Operating expenses	A$m	18.2	18.7	22.3	25.2	28.1
Team profit share	A$m	11.1	9.8	11.2	14.4	17.5
Operating EBITDA	**A$m**	**3.7**	**3.7**	**6.5**	**10.5**	**14.6**
Underlying profit before income ta:	A$m	6.0	5.5	7.5	11.2	15.0
Underlying profit after tax	**A$m**	**4.2**	**3.9**	**5.2**	**7.8**	**10.5**
Reported NPAT	A$m	-0.5	0.1	3.0	5.7	8.5
Cash NPAT	A$m	3.0	1.1	4.0	6.3	9.1
EPS - basic adjusted	A$m	5.1	4.6	6.3	9.3	12.6
EPS - diluted cash	**cps**	**2.7**	**1.0**	**3.7**	**5.7**	**8.3**
EPS - diluted reported	cps	-0.4	0.1	2.8	5.2	7.7
DPS	cps	3.0	1.0	3.6	4.7	6.3

PROFIT AND LOSS		FY23A	FY24E	FY25E	FY26E	FY27E
Management fees	A$m	36.0	35.3	38.7	42.0	46.7
Performance fees	A$m	0.0	0.0	4.5	11.6	17.0
Total fee revenue	**A$m**	**36.0**	**35.3**	**43.2**	**53.6**	**63.8**
Net fund direct expenses	A$m	2.9	3.1	3.3	3.4	3.6
Operating expenses	A$m	18.2	18.7	22.3	25.2	28.1
Team profit share	A$m	11.1	9.8	11.2	14.4	17.5
Operating EBITDA	**A$m**	**3.7**	**3.7**	**6.5**	**10.5**	**14.6**
Underlying profit before income tax	A$m	6.0	5.5	7.5	11.2	15.0
Underlying profit after tax	**A$m**	**4.2**	**3.9**	**5.2**	**7.8**	**10.5**
Reported NPAT	A$m	-0.5	0.1	3.0	5.7	8.5
Cash NPAT	A$m	3.0	1.1	4.0	6.3	9.1
Weighted average diluted shares	**m**	**109.4**	**109.9**	**109.8**	**109.8**	**109.8**

BALANCE SHEET		FY23A	FY24E	FY25E	FY26E	FY27E
Cash and cash equivalents	A$m	14.2	9.4	13.8	16.3	20.3
Receivables	A$m	1.4	1.8	2.3	2.8	3.3
Property, plant and equipment	A$m	1.1	0.9	0.9	0.9	0.9
Goodwill and other intangibles	A$m	12.5	10.1	8.1	8.1	8.1
Other assets	A$m	20.8	22.2	21.4	21.4	21.4
Total Assets	**A$m**	**90.9**	**85.3**	**87.3**	**90.3**	**94.8**
Trade and other liabilities	A$m	5.7	2.5	3.1	3.8	4.6
Borrowings	A$m	0.0	0.0	0.0	0.0	0.0
Other liabilities	A$m	7.5	7.0	7.0	7.0	7.0
Total Liabilities	**A$m**	**13.2**	**9.5**	**10.2**	**10.8**	**11.6**
Net assets	**A$m**	**77.7**	**75.8**	**77.1**	**79.4**	**83.2**
Net tangible assets	A$m	65.2	65.7	69.0	71.4	75.2
Invested capital	A$m	63.5	66.3	63.4	63.2	63.0
Tangible invested capital	A$m	51.1	56.3	55.3	55.1	54.9
Contributed equity	A$m	99.0	98.7	98.7	98.7	98.7
Reserves	A$m	26.2	50.3	50.3	50.3	50.3
Accumulated losses	A$m	-47.4	-73.2	-71.8	-69.5	-65.7
Non-controlling interests	A$m	0.0	0.0	0.0	0.0	0.0
Total equity	**A$m**	**77.7**	**75.8**	**77.1**	**79.4**	**83.2**
Basic shares on issue	**m**	**83.4**	**83.5**	**83.5**	**83.5**	**83.5**

CASH FLOW		FY23A	FY24E	FY25E	FY26E	FY27E
Net operating cashflow	**A$m**	**0.1**	**0.4**	**4.7**	**8.3**	**10.7**
Investment						
Capital expenditure	A$m	-2.7	1.1	0.0	-0.6	-0.6
Acquisitions and growth capex	A$m	2.4	5.0	0.0	2.0	2.0
Net cash flow	**A$m**	**-11.5**	**-7.0**	**3.0**	**2.4**	**3.4**

Source: MST Access Estimates

Figure 2: Interims

Pengana Capital													
Year end 30-June													
INCOME STATEMENT	**FY22A**	**1H23a**	**2H23a**	**FY23A**	**1H24a**	**2H24e**	**FY24E**	**1H25e**	**2H25e**	**FY25E**	**1H26e**	**2H26e**	**FY26E**
Management fees	41.8	18.1	17.9	36.0	17.4	17.9	35.3	19.0	19.7	38.7	20.5	21.5	42.0
Performance fees	32.7	0.0	0.0	0.0	0.0	0.0	0.0	1.7	2.7	4.5	5.7	5.9	11.6
Total fee revenue	**74.5**	**18.1**	**17.9**	**36.0**	**17.4**	**17.9**	**35.3**	**20.7**	**22.5**	**43.2**	**26.2**	**27.4**	**53.6**
Net fund direct expenses	3.1	1.5	1.4	2.9	1.5	1.6	3.1	1.6	1.6	3.3	1.7	1.7	3.4
Operating expenses	16.3	8.3	10.0	18.2	8.3	10.4	18.7	10.6	11.7	22.3	12.1	13.2	25.2
Team profit share	23.2	5.8	5.3	11.1	5.0	4.8	9.8	5.3	5.8	11.2	7.1	7.4	14.4
Total operating expenses	**42.7**	**15.6**	**16.7**	**32.3**	**14.9**	**16.8**	**31.6**	**17.5**	**19.1**	**36.7**	**20.8**	**22.2**	**43.1**
Operating EBITDA	**31.8**	**2.5**	**1.2**	**3.7**	**1.8**	**1.1**	**3.7**	**3.2**	**3.3**	**6.5**	**5.4**	**5.2**	**10.5**
Underlying profit before income ta:	29.2	3.8	2.3	6.0	3.2	1.6	5.5	3.6	3.8	7.5	5.7	5.5	11.2
Underlying profit after tax	20.4	2.6	1.6	4.2	2.2	1.1	3.9	2.6	2.7	5.2	4.0	3.8	7.8
Reported NPAT	**18.9**	**-0.3**	**-0.2**	**-0.5**	**-0.9**	**0.3**	**0.1**	**1.5**	**1.6**	**3.0**	**2.9**	**2.8**	**5.7**
Cash NPAT	21.8	0.4	2.6	3.0	-0.3	0.8	1.1	2.0	2.1	4.0	3.2	3.1	6.3
Dividends													
Ordinary Dividends (cents/shr.)	20.0	2.0	1.0	3.0	1.0	0.0	1.0	2.0	1.6	3.6	2.4	2.3	4.7
Special Dividends (cents/shr.)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total dividends (cents)	**20.0**	**2.0**	**1.0**	**3.0**	**1.0**	**0.0**	**1.0**	**2.0**	**1.6**	**3.6**	**2.4**	**2.3**	**4.7**
Franking	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*
Payout ratio (% of adj NPAT)	*106%*	*83%*	*70%*	*78%*	*50%*	*50%*	*29%*	*50%*	*50%*	*76%*	*50%*	*50%*	*67%*
FUM AND OTHER METRICS	**FY22A**	**1H23a**	**2H23a**	**FY23A**	**1H24a**	**2H24e**	**FY24E**	**1H25e**	**2H25e**	**FY25E**	**1H26e**	**2H26e**	**FY26E**
FUM													
Open	**3,974**	**3,325**	**3,219**	**3,325**	**3,050**	**3,055**	**3,050**	**3,376**	**3,554**	**3,376**	**3,707**	**3,872**	**3,707**
Flows	*74*	*-47*	*-105*	*-152*	*-18*								
Distributions	*-149*	*-123*	*-50*	*-173*	*-80*								
Mark-to-Markets	*-574*	*95*	*243*	*338*	*102*								
Close	**3,325**	**3,219**	**3,050**	**3,050**	**3,055**	**3,376**	**3,376**	**3,554**	**3,707**	**3,707**	**3,872**	**4,054**	**4,054**
Growth %	-16%	-3%	-5%	-8%	0%	11%	11%	5%	4%	10%	4%	5%	9%
Average FUM (A$m)	**3,885**	**3,294**	**3,045**	**3,170**	**3,053**	**3,216**	**3,134**	**3,465**	**3,631**	**3,548**	**3,790**	**3,963**	**3,876**

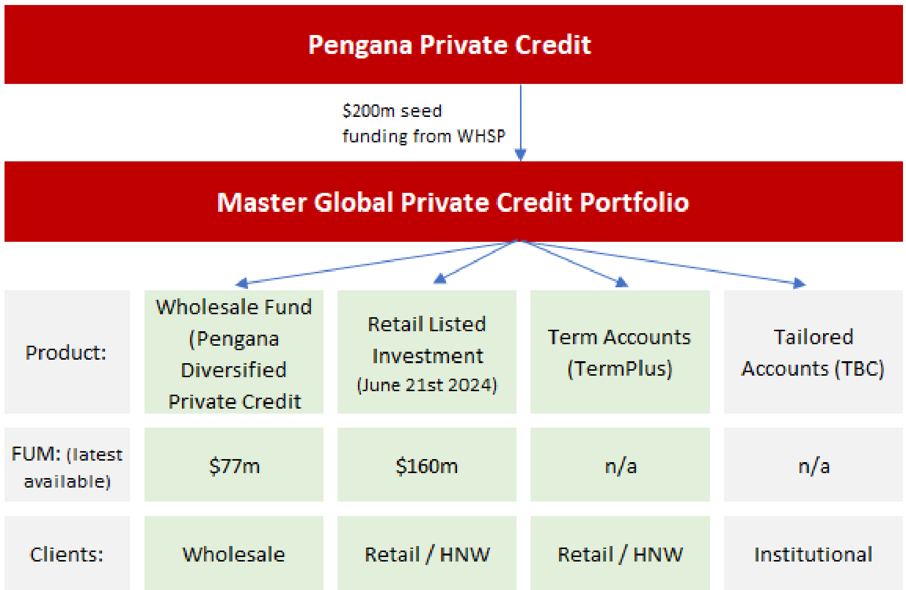
Source: MST Access Estimates

Pengana Private Credit

Three out of Four Buckets Imminent

Pengana is just over a week away from having launched three out of four flagged products within its Pengana Private Credit business, with the latest being the term accounts, named 'TermPlus'. It follows the wholesale fund (Pengana Diversified Private Credit Fund), which launched in October 2023, and the retail listed investment vehicle which raised $160m and is expected to commence trading on the 21st of June. We provide an updated outlook of each bucket within the Private Credit business below:

Figure 3: Pengana Private Credit Buckets



Source: Pengana Result Presentations/TermPlus PDS/MST Access

TermPlus Accounts

The term accounts will aim to deliver income via floating-rate term accounts, with a minimum investment of $2,000. The target rates for these accounts will be calculated as a fixed spread above the RBA cash rate. For a one-year term account, that is equivalent to the RBA cash rate + 3% net of fees, currently ~7.35%, and increases to 8% p.a. for 2 years, and 8.5% p.a. for five years.

The TermPlus accounts will also allow customers to either receive income on a monthly basis, or reinvest the income.

Pengana will not charge a management or performance fee for the product, however expect to achieve a margin over the target rate which we guess to be around 2%.

Pengana will also offer customers three layers of protection against any decrease in the value of the term balances. These include:

Priority Income Entitlement: PCG will invest in TermPlus through a support account to provide an extra pool of income returns that support the target rates for each account.

Income Stabilisation: In the event that the value of a term account decreases for any given month, PCF will continue to calculate target rate income on the total invested amount.

Savings Support: Any decline in the amount that is invested in TermPlus is eligible to be topped up by the Support Account at maturity, up to the savings support limit which is currently 5% for all term options. To help unpack the savings support mechanism, we outline a scenario that is disclosed in the TermPlus PDS:

Assuming a 2-year term account with $10,000 invested that delivers a target rate of 7% across the term, with an assumed loss of 19% at the end of the term, the closing balance at maturity decreases by $1,900 and the account holder suffers a $500 notional loss on their invested amount after income payments of $1,400.

As the Savings Support provides for payment up to $500, TermPlus will make a savings support payment of $500 bridging the difference between the Final Value and the Invested Amount.

Comparison Products

Term Deposits & Annuities

The Big 4 banks currently offer term deposit rates between 4.5% - 4.6% over 12 months, and term annuities currently offered by Challenger sit at ~5.1% over 3 years. The difference in rates between what the more traditional products offer and the TermPlus product is ~3% - 4%.

It is prudent to note that TermPlus are target rates, and are not guaranteed, whilst term deposits are guaranteed up to $250k by the Financial Claims Scheme (FCS) and annuities are guaranteed under the life company with regulatory capital supporting it.

However, importantly the TermPlus accounts offer significant layers of protection as discussed above.

Other Key Players in Private Credit Term Accounts

The most like-for-like comparison to the TermPlus product is La Trobe Financials term accounts, which offer accounts ranging from Classic Notice accounts (funds available within 2 business days), up to 4 year term accounts. The term accounts are pooled from a portfolio of investments that invest largely in first mortgages across each account, other than the 4 year term account, that is invested in various credit assets.

We highlight below the key differences between the La Trobe Term Accounts and the Pengana TermPlus accounts. On average, Pengana aims to target returns ~60bps higher than that of La Trobe, who are currently seen as one of the market leaders in private credit term accounts.

We also note that where the TermPlus accounts have 3 layers of protection, La Trobe offer very little in the way of protection, other than using an investor reserve to temporarily support accounts.

Figure 4: Overview of PCG vs La Trobe Term Account Offerings

Private Credit Term Accounts	Pengana	La Trobe
1 Year Target Return	7.35% p.a.	6.75% p.a.
2 Year Target Return	8.00% p.a.	6.85% p.a.
5 Year Target Return	8.50% p.a.	8.40% p.a. (for 4 years)
Monthly Income	✔	✔
Layers of Protection?	✔	✘

Source: TermPlus PDS/La Trobe Credit Fund PDS/MST Access

Product Innovation

Breaking Through the Traditional Model

We revisit how we believe Pengana is breaking through the traditional model for boutique fund managers, which underpins our investment thesis and view on PCG.

The traditional model for boutique fund managers will usually begin by seeding a fund, it will then wait years to establish a track record, and then assuming it has performed well, will begin to sell into institutional / retail.

There are a few pain points here, particularly for smaller fund managers. There is long lead times between seeding and earning fees, it is capital intensive, and finally, the distribution framework is extremely competitive.

Pengana is breaking the chain with its innovative Global Private Credit business. We outline why below:

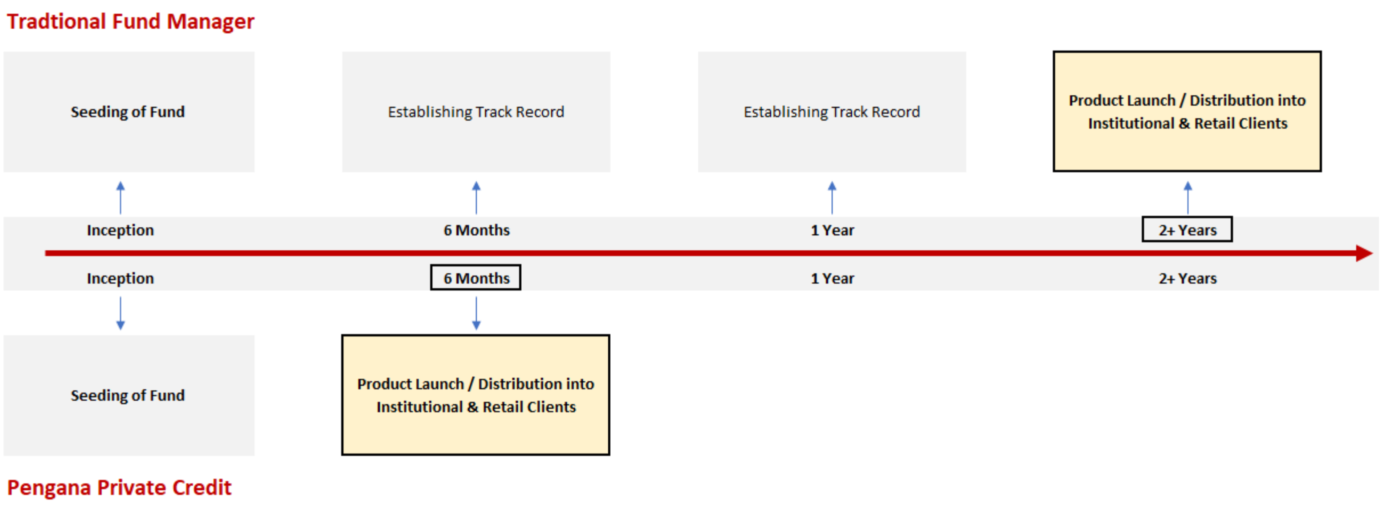
Partnerships / JV's

1. PCG had originally entered into a JV with a significant player in funds manager, Washington H. Soul Pattinson. Soul Patts provided Pengana with $200m in seed capital which is currently being deployed. PCG now has 100% of the economics.
2. PCG also partnered and appointed Mercer as its investment consultant for the master GPC portfolio. This type of partnership has drastically reduced lead times, ultimately allowing for products to be launched within months.

Product Innovation / Distribution

1. PCG has also understood where the opportunities lie and has invested into its product platform to develop market-leading digital capabilities.
2. It has outlined four separate products (to-date), differing from a standard fund, to allow for sophisticated distribution channels, including a wholesale fund (already in market), a retail listed investment vehicle, term accounts, and tailored accounts, all to be launched imminently.

Figure 5: Inception of Fund to Launch Timeline



Source: MST Access

Funds Overview

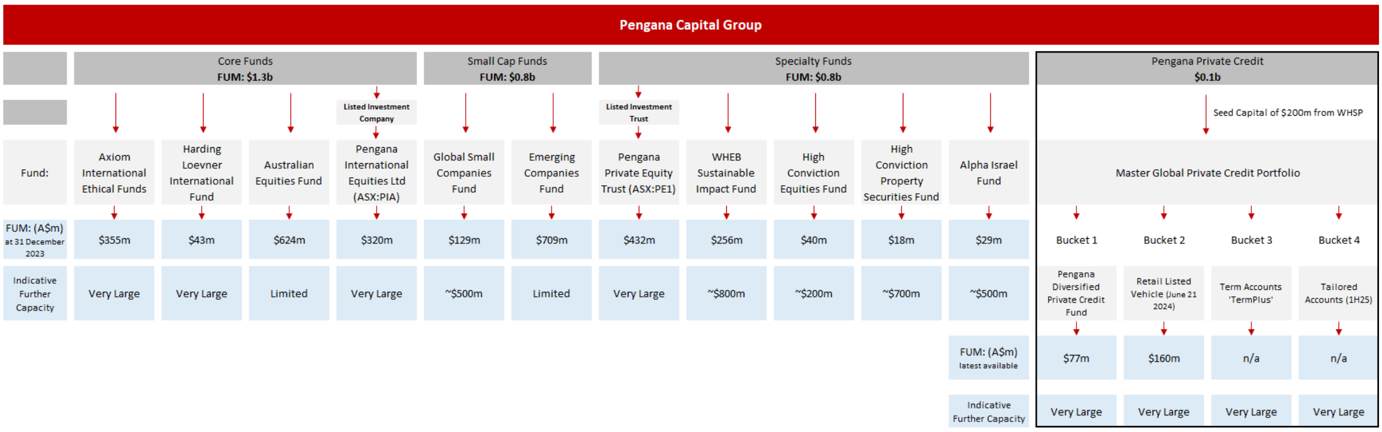
Broad Base of Funds

Pengana has both a broad scope of funds on offer, including its listed investment company (ASX:PIA) and listed investment trust (ASX:PE1), as well as significant further capacity for FUM.

The focus over the last few years has been to re-position the business for future growth at higher margins, specifically, in private markets including both private equity and private credit. We expect that over time PCG will continue to diversify its funds through new strategies and businesses.

Pengana averages a management fee of ~1.18% and a historical gross fee margin of ~1.80%, implying an average performance fee of 0.62%. We expect that the ~ 75% of funds under management that is subject to performance fees to revert to the mean of 0.62% over the next few years.

Figure 6: Pengana Capital Group Funds Overview



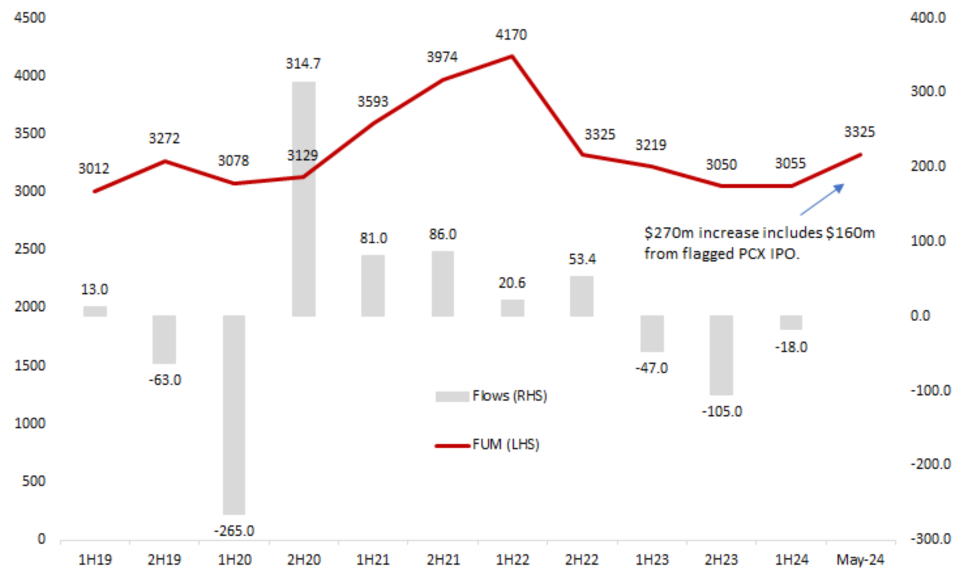
Source: Company Reports, MST Access

Funds Under Management

Stabilising, anticipate net-flows turning positive on back of GPC

After significant falls in Pengana's group FUM over 2022, which included the divestment in Lizard, it has largely maintained a stable trajectory over the past 6 months. The business has undergone a repositioning and any further moderation in its non-private market FUM should be counterbalanced by new growth initiatives.

Figure 7: Pengana FUM and Net-flow profile



Source: Company Reports, MST Access estimates

Report prepared by MST Access, a registered business name of MST Financial services ABN 617 475 180 AFSL 500 557.

Valuation

Discounted Cash Flow as at June 2024

We utilise a DCF Valuation methodology as detailed in the below table.

In our DCF our cost of debt is 4.5%, driven by an assumed 30% tax rate, with our cost of equity at 12.6%. Given PCG is debt-free, our WACC is also 12.6%.

We value the NPV of future cashflows at $157m, and include net-cash of $11m in our below valuation, which helps us arrive at our valuation for Pengana of A$1.93 per share.

Figure 8: DCF Valuation as at June 2024

DCF Valuation	
WACC	12.6%
Ke (cost of equity)	12.6%
Kd (cost of debt)	4.5%
	$m
NPV	150
Net-Cash	11
Total Valuation	**161**
Share Count (not incl. Treasure shares) (m)	83.5
Valuation per share ($0.00)	**1.93**

Source: MST Access Estimates

EPS Changes

We have upgraded our underlying EPS by 10.0%, 2.9%, and 2.7% for FY24, FY25, and FY26 respecitvely.

The changes are driven by stronger than expected monthly FUM over 3Q24.

Based on the above changes, we lift our valuation to $1.93 (previously $1.85).

Figure 9: EPS Changes

Earnings Revisions	FY24e (new)	FY24e (previous)	% Change	FY25e (new)	FY25e (previous)	% Change	FY26e (new)	FY26e (previous)	% Change
Underlying EBITDA	3.7	3.1	18.5%	6.5	6.3	3.6%	10.5	10.2	3.3%
Underlying NPAT	3.9	3.5	10.1%	5.2	5.1	2.8%	7.8	7.5	4.1%
EPS (underlying) cps	4.6	4.2	10.0%	6.3	6.1	2.9%	9.3	9.1	2.7%
Dividend (¢ps)	1.0	1.0	0.0%	3.6	0.0	n/a	4.7	2.0	135.0%

Source: MST Access Estimates

Key Risks

Strategic

Pengana Capital Group is subject to a significant number of regulatory requirements, and could suffer from adverse changes to the requirements, including in Australia:

- Anti-money laundering and counter terrorist financing requirements administered by Austrac;
- Privacy requirements administered by the Privacy Commissioner.
- Financial Service licencing and Credit licencing administered by the Australian Securities and Investments Commission (ASIC);
- Australian Consumer Law and unfair contract terms contained in the Corporations Act administered by the Australian Competition and Consumer Commission (ACCC);
- Taxation legislation administered by the Australian Taxation Office (ATO);
- Accounting standards required under the Corporations Act administered by the Australian Accounting Standards Board (AASB) and ASIC.

Pengana Capital Group operates in a competitive environment where performance can vary and new or rival offerings emerge periodically. Sometimes consolidation of fund managers occurs, such as Pengana's own merger with Hunter Hall several years ago. These risks present to investors in the form of both strategic M&A risks and general market risks.

Financial

Being a fund manager, Pengana Capital Group has a range of risks and sensitivities applicable to most companies in the financial sector. These include:

- **Investment performance** – investors seek out funds with a strong performance history, so fund performance tends to be a reasonable indicator of future flows. Furthermore, with many of Pengana's funds featuring performance fees, weak investment performance will also impact Pengana's performance fee earnings, and hence its profitability.
- **Macroeconomic conditions** – many of the following risks vary through the economic cycle. Loose monetary conditions, such as those currently being experienced, supress many of these risks which can them emerge suddenly as macroeconomic policy tightens, and conditions deteriorate. Economic stimulus to counter COVID-19 has led to a strong market recovery following the aggressive market sell-off at the start of the pandemic. Where funds are optimised for a particular investment style, macroeconomic conditions can have a significant impact on the relative performance of that style compared to other investment styles.
- **Compliance risks** – There are many regulations that companies in the finance sector need to follow, outlined above in strategic risks, including anti-money laundering and counter terrorist financing know your customer requirements, where failure to comply with the regulatory requirements can lead to material financial penalties or litigation.

Operational

Most companies, including Pengana Capital Group, have a range of operational risks. These include:

- **Governance** – Increasingly an investment focus as part of ESG, governance risks include all matters of agency costs within the business, including delegated responsibilities and authorisations, internal controls and how conflicts of interest are addressed.
- **Key personnel** – Pengana Capital Group's ability to scale its business assumes availability of suitably qualified staff and a reliance on key personnel. This is particularly relevant for fund managers, where portfolio managers carry significant key personnel risk. Pengana's house of funds approach, and strong incentive alignment with portfolio managers are examples of the methods employed to manage this risk.
- **Information technology** - Should Pengana Capital Group's key technology infrastructure become corrupted such as from hardware failure or malware it would be highly disruptive to Pengana Capital Group's operations. Furthermore, IT hardware and software becomes obsolete after a few years and requires capital investments to be updated, otherwise the company is at high risk of becoming inefficient and being superseded by its competitors.

Personal disclosures

Joseph Licciardi and Lafitani Sotiriou received assistance from the subject company or companies in preparing this research report. The company provided them with communication with senior management and information on the company and industry. As part of due diligence, they have independently and critically reviewed the assistance and information provided by the company to form the opinions expressed in this report. They have taken care to maintain honest and fair objectivity in writing this report and making the recommendation. Where MST Financial Services or its affiliates has been commissioned to prepare content and receives fees for its preparation, please note that NO part of the fee, compensation or employee remuneration paid has, or will, directly or indirectly impact the content provided in this report.

Company disclosures

The companies and securities mentioned in this report, include:

Pengana Capital Group (PCG.AX) | Price A$0.85 | Valuation A$1.93;

Price and valuation as at 14 June 2024 (not covered)*

Additional disclosures

This report has been prepared and issued by the named analyst of MST Access in consideration of a fee payable by: Pengana Capital Group (PCG.AX)

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