

PENGANA DIVERSIFIED PRIVATE CREDIT FUND

31 May 2024

Dear Investor,

We are pleased to provide you with our quarterly newsletter for the Pengana Diversified Private Credit Fund (the “Fund”).

Inflation in the US and European economies is trending towards central bank targets, however consensus regarding the timing and quantum of rate cuts remains divergent. Many commentators have been surprised by the resilience of the US economy and the limited adverse economic impact of rate rises to date, suggesting central bank easing may be delayed. In Europe, the mood is more subdued, with the expectation that rate cuts will come sooner rather than later. With increasing confidence that the tightening cycle is over, market risk appetite has increased, with both equity and traded credit markets rallying.

Within this macro backdrop, the market for global private credit investing remains attractive with:

- Strong demand for private credit solutions driven by:
 - growing business optimism and returning M&A activity;
 - expectations that markets will remain volatile due to conflicting economic data and geopolitical risks, which is positive for our opportunistic strategies; and
 - growing numbers of highly leveraged businesses facing liquidity issues and requiring capital solutions and/or restructuring.
- In addition, the opportunity set for private credit solutions in the US and Europe continues to grow, as bank regulators further increase capital requirements for banks, causing them to reduce lending activity and widening the structural gap in the mid-market.

Our portfolio is well placed to take advantage of these positive dynamics.

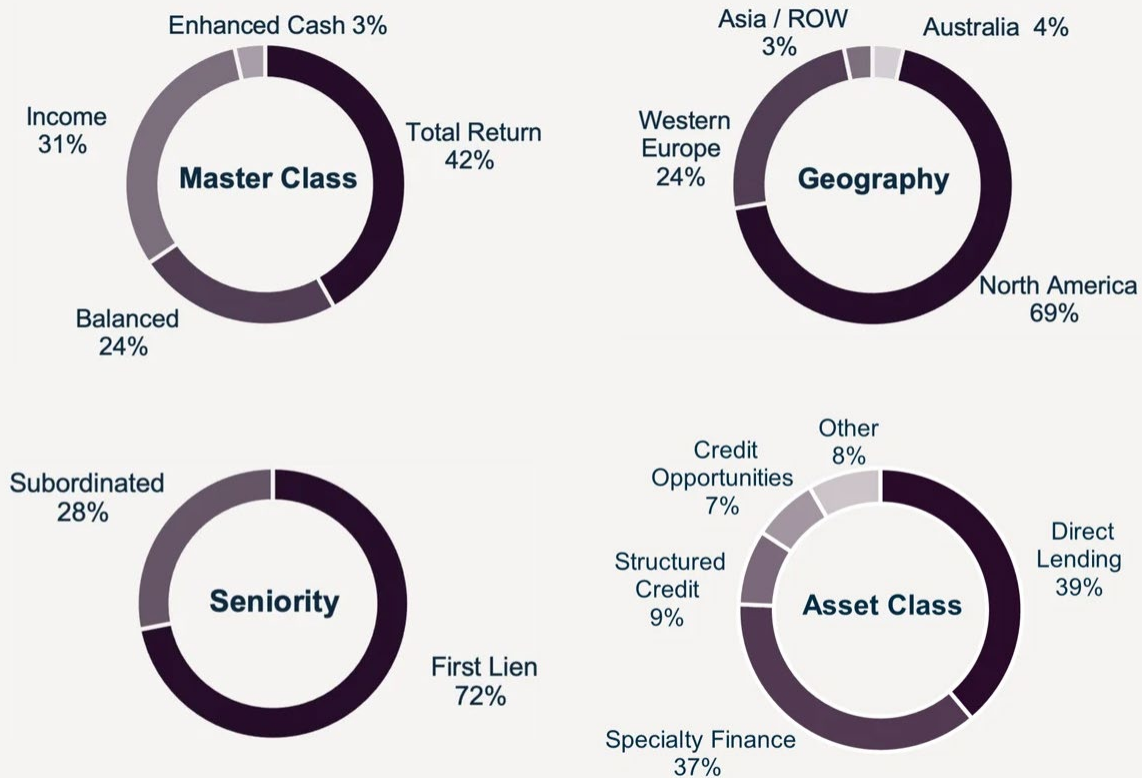
Portfolio Update

Our portfolio of underlying funds is benefiting from favourable market conditions for origination across all strategies and improving credit fundamentals of borrowers in senior secured strategies.

In all cases, the managers of our underlying funds remain optimistic about achieving above-target returns given the overall performance of existing investments against their planned expectations and the quality of new opportunities in their pipelines. That said, all managers remain vigilant given the expectation of higher rates for longer and the potential lagged economic impact of previous rate rises.

Conditions won't always be as favourable, but with multiple managers pursuing different strategies we expect to continue to generate resilient returns in more challenging environments as well.

Portfolio Composition



The portfolio is well diversified across geography, seniority, and asset class and will continue to diversify further and trend toward target allocations as additional funds are onboarded in the coming weeks.

The portfolio is slightly underweight the target allocation range of 5 to 15% in the Enhanced Cash bucket. This is a strategic decision due to limited upcoming liquidity needs. The allocation to Enhanced Cash will increase as the portfolio matures.

New Investments

Since the start of 2024, the Fund has made initial investments in three new funds, bringing the total number of underlying funds to 15. Over the next 6 weeks, the Fund plans to invest in an additional 5 funds, further diversifying the Fund across geography, strategy, and sector.

Portfolio Returns

December quarter returns for the funds predominantly met or exceeded target returns.

- **Income class** funds are reporting annualised returns of 12.8-13.9% for the quarter, which is above target returns.
- **Balanced class** funds are reporting annualised returns of 8.6-11.6% for the quarter. This is towards the lower end of the target returns because one fund is still in its ramp-up phase.
- **Total Return class** funds experienced a wider range of quarterly returns due to the differing stages of investment and realisation. On average, returns from these managers were ahead of target, with some funds performing well above target and the others performing at or near target levels.

As a result, the portfolio is currently on track to meet our annualised return target of RBA+ 7-9%.

It is important to note that the returns are marginally impacted by our Indexing Methodology that normalises the portfolio returns to take into account timing differences from the date that each of the underlying funds' reports until our reporting date, which could be a period of 1 to 3 months depending on the timing and frequency of the underlying fund reporting.

Under this methodology, returns for these interim periods are indexed at RBA cash rate + 6% p.a.

The net impact of our Indexing Methodology is that our reported returns are likely to be marginally understated because the rate used to index is slightly less than our target returns.

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD ²
2024	0.83	0.82	0.94	1.09									3.73
2023											0.86	1.11	1.97

Thank you again for providing us with the opportunity to be a custodian of your capital.

Yours sincerely,



Nehemiah Richardson
CEO Pengana Credit



Russel Pillemer
CEO Pengana Capital Group



Adam Rapeport
Portfolio Manager



Nick Griffiths
CIO Pengana Capital Group

1. Due to the lag in underlying fund valuation reporting, and in order to more closely reflect the current NAV for new investors, the Trustee adjusts the NAV by the RBA Overnight Cash Rate + 6% p.a. since the date of the last valuation provided by underlying managers.
2. Fund return reflects compounded movements in the NAV.

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PENGANA CAPITAL LIMITED
ABN 30 103 800 568
AFSL 226566

PENGANA.COM

CLIENT SERVICE

T: +61 2 8524 9900

E: clientservice@pengana.com

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