

Pengana High Conviction Equities Fund

ARSN 602 546 332

Interim report

For the half-year ended 31 December 2020

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This interim report does not include all of the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2020 and any public announcements made in respect of Pengana High Conviction Equities Fund during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

This interim report covers Pengana High Conviction Equities Fund (ARSN 602 546 332) as an individual entity.

The Responsible Entity of Pengana High Conviction Equities Fund is Pengana Capital Limited (ABN 69 063 081 612).
The Responsible Entity's registered office is: Level 1, 2 and 3, 60 Martin Place, Sydney, NSW 2000.

Directors' report

The directors of Pengana Capital Limited, the Responsible Entity of Pengana High Conviction Equities Fund (the "Fund"), present their report together with the financial statements of the Fund, for the half-year ended 31 December 2020.

Principal activities

The Fund invests primarily in listed securities in accordance with the provisions of the Fund's Constitution.

The Fund did not have any employees during the half-year.

There were no significant changes in the nature of the Fund's activities during the half-year.

The various service providers for the Fund are detailed below:

Service	Provider
Responsible Entity	Pengana Capital Limited
Investment Manager	Pengana Capital Limited
Custodian and Administrator	BNP Paribas Securities Services
Statutory Auditor	PricewaterhouseCoopers

Directors

The following persons held office as directors of Pengana Capital Limited during the whole of the half-year and up to the date of this report:

Russel Pillemer
Katrina Glendinning
Nick Griffiths

Review and results of operations

The Fund continued to invest funds in accordance with target asset allocations as set out in the Product Disclosure Statement and in accordance with the provisions of the Fund's Constitution.

Results

The performance of the Fund, as represented by the results of its operations, was as follows:

	Half-year ended	
	31 December	31 December
	2020	2019
	\$	\$
Operating profit before finance costs attributable to unitholders	<u>6,624,912</u>	<u>3,152,038</u>

Directors' report (continued)

Coronavirus impact (COVID-19)

The impacts of the COVID-19 pandemic on the Trust were disclosed in the Directors report of the Fund's Annual Report for the Financial Year ending 30 June 2020 and remain broadly unchanged at the date of this Interim report. Despite the pandemic continuing throughout the period of this report, there have been no new adverse impacts on the Fund's financial results or risks arising from COVID-19. Whilst share market and currency volatility remains, the Fund has not recorded any impairments of its investments during the period ended 31 December 2020 as the Fund's equity investments are classified as level 1 in the fair value hierarchy (as defined in Note 2 to the financial statements) and marked-to-market with reference to quoted prices on stock exchanges. Additionally expected credit losses have remained unchanged on the Fund's receivables, which comprise of interest on cash balances and dividends, as they have since been collected or the counterparties have been assessed to have strong credit ratings.

Significant changes in the state of affairs

In the opinion of the directors, there were no significant changes in the state of the affairs of the Fund that occurred during the financial half-year.

Likely developments and expected results of operations

The Fund will continue to be managed in accordance with the investment objectives and guidelines as set out in the governing documents of the Fund and in accordance with the provisions of the Fund's Constitution.

The results of the Fund's operations will be affected by a number of factors, including the performance of investment markets in which the Fund invests. Investment performance is not guaranteed and future returns may differ from past returns. As investment conditions change over time, past returns should not be used to predict future returns.

Rounding of amounts to the nearest dollar

Amounts in the directors' report have been rounded to the nearest dollar in accordance with *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*, unless otherwise indicated.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 4.

This report is made in accordance with a resolution of the directors of Pengana Capital Limited.



Katrina Glendinning
Director
Pengana Capital Limited
12 March 2021



Auditor's Independence Declaration

As lead auditor for the review of Pengana High Conviction Equities Fund for the half-year ended 31 December 2020, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.

A handwritten signature in black ink that reads 'Buckman'.

Bianca Buckman
Partner
PricewaterhouseCoopers

Sydney
12 March 2021

PricewaterhouseCoopers, ABN 52 780 433 757

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Pengana High Conviction Equities Fund
Statement of comprehensive income
For the half-year ended 31 December 2020

	Half-year ended	
	31 December	31 December
	2020	2019
	\$	\$
Investment income		
Interest income	-	10,820
Dividend income	8,935	21,735
Net foreign exchange loss	(68)	(630)
Net gains on financial instruments held at fair value through profit or loss	<u>7,761,938</u>	<u>3,434,611</u>
Total net investment income	<u>7,770,805</u>	<u>3,466,536</u>
Expenses		
Management fees	237,427	214,345
Performance fees	826,384	-
Transaction costs	55,777	74,389
Withholding tax	1,361	3,139
Other operating expenses	<u>24,944</u>	<u>22,625</u>
Total operating expenses	<u>1,145,893</u>	<u>314,498</u>
Operating profit	6,624,912	3,152,038
Finance costs attributable to unitholders		
(Increase) / decrease in net assets attributable to unitholders* 3	<u>(6,624,912)</u>	<u>-</u>
Profit / (loss) for the half-year	<u>-</u>	<u>3,152,038</u>
Other comprehensive income	-	-
TOTAL COMPREHENSIVE INCOME	<u>-</u>	<u>3,152,038</u>

**Net assets attributable to unitholders were reclassified from equity to liabilities on 1 July 2020. Refer to Note 3 for further details. Accordingly, effective from 1 July 2020, distributions to unitholders and (increase)/decrease in net assets attributable to unitholders are presented as finance costs in the Statement of Comprehensive Income. Distributions to unitholders and net profit/(loss) attributable to unitholders are no longer presented in the Statement of Changes in Equity.*

Pengana High Conviction Equities Fund
Statement of financial position
As at 31 December 2020

		As at	
	Notes	31 December 2020 \$	30 June 2020 \$
Assets			
Cash and cash equivalents		4,479,949	2,963,698
Receivables	5	26,128	17,120
Financial assets at fair value through profit or loss	4	<u>27,601,995</u>	<u>20,200,690</u>
Total assets		32,108,072	23,181,508
Liabilities			
Distribution payable		-	253,297
Payables	6	<u>882,029</u>	<u>47,424</u>
Total liabilities (excluding net assets attributable to unitholders - liability*)		<u>882,029</u>	<u>300,721</u>
Net assets attributable to unitholders - Liability	3	<u>31,226,043</u>	<u>-</u>
Net assets attributable to unitholders - Equity	3	<u>-</u>	<u>22,880,787</u>

**Net assets attributable to unitholders were reclassified from equity to liabilities on 1 July 2020. Refer to Note 3 for further details.*

Pengana High Conviction Equities Fund
Statement of changes in equity
For the half-year ended 31 December 2020

	Half-year ended	
	31 December	31 December
	2020	2019
	\$	\$
Balance at the beginning of the half-year - Liability*	-	-
Reclassification of net assets attributable to unitholders from equity to liability - transfer in*	22,880,787	-
Applications	2,908,037	-
Redemptions	(1,187,693)	-
Increase in net assets attributable to unitholders	6,624,939	-
Balance at the end of the half-year - Liability*	<u>31,226,070</u>	<u>-</u>

	Notes	Half-year ended	
		31 December	31 December
		2020	2019
		\$	\$
Balance at the beginning of the half-year - Equity*	3	22,880,787	21,896,608
Reclassification of net assets attributable to unitholders from equity to liability - transfer out*	3	(22,880,787)	-
Comprehensive income for the year			
Profit/(loss) for the half-year attributable to unitholders*		-	3,152,038
Other comprehensive income		<u>-</u>	<u>-</u>
Total comprehensive income for the half-year		-	3,152,038
Transactions with unitholders			
Applications		-	1,575,227
Redemptions		<u>-</u>	<u>(2,659,864)</u>
Total transactions with unitholders		-	(1,084,637)
Balance at the end the half year - Equity*		<u>-</u>	<u>23,964,009</u>

**Net assets attributable to unitholders were reclassified from equity to liabilities on 1 July 2020. Refer to Note 3 for further details. Accordingly, effective from 1 July 2020, distributions to unitholders and (increase)/decrease in net assets attributable to unitholders are presented as finance costs in the Statement of Comprehensive Income. Distributions to unitholders and net profit/(loss) attributable to unitholders are no longer presented in the Statement of Changes in Equity.*

Pengana High Conviction Equities Fund
Statement of cash flows
For the half-year ended 31 December 2020

	Half-year ended	
	31 December	31 December
	2020	2019
	\$	\$
Cash flows from operating activities		
Proceeds from sale of financial instruments at fair value through profit or loss	15,071,772	19,507,525
Purchase of financial instruments at fair value through profit or loss	(14,711,139)	(16,751,830)
Dividends received	4,540	11,271
Interest received	521	12,150
GST paid	(5,399)	(3,425)
Management fees paid	(224,483)	(204,405)
Withholding tax paid	(1,096)	(3,054)
Transaction costs paid	(55,777)	(74,616)
Payment of other operating expenses	(23,667)	(21,575)
Net cash inflow from operating activities	55,272	2,472,041
Cash flows from financing activities		
Proceeds from applications by unitholders	2,908,037	1,575,227
Payments for redemptions by unitholders	(1,193,693)	(2,655,864)
Distributions paid	(253,297)	(510,528)
Net cash inflow/(outflow) from financing activities	1,461,047	(1,591,165)
Net increase in cash and cash equivalents		
Cash and cash equivalents at the beginning of the half-year	2,963,698	3,835,081
Effect of foreign currency exchange rate changes on cash and cash equivalents	(68)	(630)
Cash and cash equivalents at the end of the half-year	4,479,949	4,715,327

The above statement of cash flows should be read in conjunction with the accompanying notes.

Contents of the notes to the financial statements

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1 Basis of preparation of interim report

These general purpose financial statements for the half-year ended 31 December 2020 have been prepared in accordance with the Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

The financial report covers Pengana High Conviction Equities Fund (the "Fund") as an individual entity.

The Responsible Entity of the Fund is Pengana Capital Limited (ABN 69 063 081 612) (the "Responsible Entity"). The Responsible Entity's registered office is Level 1, 2 and 3, 60 Martin Place, Sydney, NSW 2000.

The financial report is presented in Australian dollars.

This interim financial report does not include all of the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2020 and any public announcements made in respect of Pengana High Conviction Equities Fund during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The financial statements were authorised for issue by the directors on 12 March 2021. The directors of the Responsible Entity have the power to amend and reissue the financial report.

(a) New accounting standards and interpretations

New and amended standards adopted by the Fund

There are no standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning 1 July 2020 that have a material impact on the amounts recognised in the prior periods or will affect the current or future periods.

2 Fair value measurements

The Fund measures and recognises the following assets and liabilities at fair value on a recurring basis:

- Financial assets / liabilities designated at fair value through profit or loss
- Derivative financial instruments

The Fund has no assets or liabilities measured at fair value on a non-recurring basis in the current reporting period.

AASB 13 requires disclosure of fair value measurements by level of the following fair value hierarchy:

- (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- (b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly (level 2);
and
- (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

(i) Fair value in an active market (level 1)

The fair value of financial assets and liabilities traded in active markets is based on their quoted market prices at the end of the reporting period without any deduction for estimated future selling costs.

For the majority of its investments, the Fund relies on information provided by independent pricing services for the valuation of its investments.

The quoted market price used for financial assets and liabilities held by the Fund is the last traded price.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

2 Fair value measurements (continued)

(ii) Fair value in an inactive or unquoted market (level 2 and level 3)

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques. These include the use of recent arm's length market transactions, reference to the current fair value of a substantially similar other instrument, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market rate at the end of the reporting period applicable for an instrument with similar terms and conditions.

For other pricing models, inputs are based on market data at the end of the reporting period. Fair values for unquoted equity investments are estimated, if possible, using applicable price/earnings ratios for similar listed companies adjusted to reflect the specific circumstances of the issuer.

The fair value of derivatives that are not exchange traded is estimated at the amount that the Fund would receive or pay to terminate the contract at the end of the reporting period taking into account current market conditions (volatility and appropriate yield curve) and the current creditworthiness of the counterparties. The fair value of a forward contract is determined as a net present value of estimated future cash flows, discounted at appropriate market rates as at the valuation date.

Investments in other unlisted unit trusts are recorded at the net asset value per unit as reported by the investment managers of such funds. The Fund may make adjustments to the value based on considerations such as; liquidity of the Investee Fund or its underlying investments, the value date of the net asset value provided, or any restrictions on redemptions and the basis of accounting.

Some of the inputs to these models may not be market observable and are therefore estimated based on assumptions. The output of a model is always an estimate or approximation of a value that cannot be determined with certainty, and valuation techniques employed may not fully reflect all factors relevant to the positions the Fund holds.

Recognised fair value measurements

The following table presents the Fund's assets and liabilities measured and recognised at fair value as at 31 December 2020 and 30 June 2020.

31 December 2020	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Financial assets at fair value through profit or loss				
Listed equity securities	<u>27,601,995</u>	-	-	<u>27,601,995</u>
Total	<u>27,601,995</u>	-	-	<u>27,601,995</u>
 30 June 2020	 Level 1 \$	 Level 2 \$	 Level 3 \$	 Total \$
Financial assets at fair value through profit or loss				
Listed equity securities	<u>20,200,690</u>	-	-	<u>20,200,690</u>
Total	<u>20,200,690</u>	-	-	<u>20,200,690</u>

The Fund's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

Transfers between levels

There were no transfers between levels in the fair value hierarchy during the half-year ended 31 December 2020.

Fair value measurements using significant unobservable inputs (level 3)

There were no investments classified as Level 3 within the Fund as at 31 December 2020 and 30 June 2020.

Fair value of financial instruments not carried at fair value

The carrying value of trade receivables and trade payables are assumed to approximate their fair values. Net assets attributable to unitholders' carrying value differs from its fair value (deemed to be redemption price for individual units) due to differences in valuation inputs. This difference is not material in the current or prior period.

The carrying value of financial instruments not measured at fair value approximate their fair values.

3 Net assets attributable to unitholders

During the period the responsible entity's decision to have two classes of units from 16 July 2020 has led to the reclassification of net assets attributable to unitholders from equity to liabilities.

Movements in the number of units and net assets attributable to unitholders during the half-year were as follows:

	Half-year ended			
	31 December	31 December	31 December	31 December
	2020	2019	2020	2019
	No.	No.	\$	\$
Net assets attributable to unitholders				
- Class A				
Opening balance	10,631,610	10,435,101	22,880,787	21,896,608
Applications	836,666	683,872	1,951,997	1,575,227
Redemptions	(512,960)	(1,178,738)	(1,187,693)	(2,659,864)
Increase in net assets attributable to unitholders	-	-	6,554,331	-
Profit/(loss) for the half year	-	-	-	3,152,038
Closing balance	10,955,316	9,940,235	30,199,422	23,964,009
Net assets attributable to unitholders				
- Class B				
Applications	852,671	-	956,040	-
Increase in net assets attributable to unitholders	-	-	70,581	-
Closing balance	852,671	-	1,026,621	-

As stipulated in the Fund's Constitution, each unit represents a right to an individual share in the Fund and does not extend to a right to the underlying assets in the Fund.

There are two separate classes of units. Each unit within the same class has the same rights as all other units within that class. Each unit class has a different management fee rate.

As the units on issue comprise multiple classes of units with non-identical features, the Fund's net assets attributable to unitholders cannot be classified as equity; and therefore, have to be classified as a liability in accordance with AASB132 Financial Instruments: Presentation.

The Fund considers its net assets attributable to unitholders as a liability. The amount of net assets attributable to unitholders can change significantly on a daily basis as the Fund is subject to daily applications and redemptions at the discretion of unitholders. Net assets attributable to unitholders are representative of the expected cash outflows on redemption.

4 Financial assets at fair value through profit or loss

	As at	
	31 December	30 June
	2020	2020
	Fair value	Fair value
	\$	\$
Financial assets at fair value through profit or loss		
Listed equity securities	27,601,995	20,200,690
Total financial assets at fair value through profit or loss	27,601,995	20,200,690

5 Receivables

	As at	
	31 December 2020	30 June 2020
	\$	\$
Dividends receivable	4,395	-
Interest receivable	-	521
Reduced Input Tax Credit receivable	13,381	7,982
Withholding tax reclaims receivable	8,352	8,617
	26,128	17,120

6 Payables

	As at	
	31 December 2020	30 June 2020
	\$	\$
Management fees payable	50,413	37,469
Performance fees payable	826,384	-
Redemptions payable	-	6,000
Other expenses payable	5,232	3,955
	882,029	47,424

7 Accounting impacts of COVID-19

The impacts of the COVID-19 pandemic on the Trust were disclosed in the Directors report of the Fund's Annual Report for the Financial Year ending 30 June 2020 and remain broadly unchanged at the date of this Interim report. Despite the pandemic continuing throughout the period of this report, there have been no new adverse impacts on the Fund's financial results or risks arising from COVID-19. Whilst share market and currency volatility remains, the Fund has not recorded any impairments of its investments during the period ended 31 December 2020 as the Fund's equity investments are classified as level 1 in the fair value hierarchy (as defined in Note 2 to the financial statements) and marked-to-market with reference to quoted prices on stock exchanges. Additionally expected credit losses have remained unchanged on the Fund's receivables, which comprise of interest on cash balances and dividends, as they have since been collected or the counterparties have been assessed to have strong credit ratings.

8 Events occurring after the reporting date

No significant events have occurred since the reporting date which would have an impact on the financial position of the Fund disclosed in the statement of financial position as at 31 December 2020 or on the results and cash flows of the Fund for the half-year ended on that date.

9 Contingent assets and liabilities or commitments

There are no outstanding contingent assets and liabilities or commitments as at 31 December 2020 and 30 June 2020.

Directors' declaration

In the opinion of the directors of the Responsible Entity:

- (a) The financial statements and notes set out on pages 5 - 13 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements;
 - (ii) giving a true and fair view of the Fund's financial position as at 31 December 2020 and of its performance for the financial half-year ended on that date,
- (b) There are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.



Katrina Glendinning
Director
Pengana Capital Limited
12 March 2021



Independent auditor's review report to the unitholders of Pengana High Conviction Equities Fund

Report on the half-year financial report

Conclusion

We have reviewed the half-year financial report of Pengana High Conviction Equities Fund (the Registered Scheme) which comprises the statement of financial position as at 31 December 2020, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, significant accounting policies and explanatory notes and the directors of the Responsible Entity's declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the accompanying half-year financial report of Pengana High Conviction Equities Fund does not comply with the *Corporations Act 2001* including:

1. giving a true and fair view of the Registered Scheme's financial position as at 31 December 2020 and of its performance for the half-year ended on that date
2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* (ASRE 2410). Our responsibilities are further described in the *Auditor's responsibilities for the review of the half-year financial report* section of our report.

We are independent of the Registered Scheme in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Responsibility of the directors of the Responsible Entity for the half-year financial report

The directors of the Responsible Entity are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors of the Responsible Entity determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement whether due to fraud or error.

Auditor's responsibility for the review of the half-year financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that

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the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Registered Scheme's financial position as at 31 December 2020 and of its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

PricewaterhouseCoopers

PricewaterhouseCoopers

Buckman

Bianca Buckman
Partner

Sydney
12 March 2021