Product Assessment

Report as at 29 Jun 2023

Zenith

RECOMMENDED

Pengana Australian Equities Fund

Rating issued on 29 Jun 2023 | APIR: PCL0005AU

Investment objective

To outperform the RBA Cash Rate over the medium to long-term, plus a margin to compensate investors for the extra risk of investing in Australian Equities whilst maintaining volatility less than the Australian equity market.

Manager	Pengana Capital Group
Distributor	Pengana Capital Group
Sector	Australian Shares \ Absolute Return
Investment Style	Neutral
RI Classification	Aware
Absolute Risk	High
Relative Risk	Active - Benchmark Unaware
Investment Timeframe	7+ Years
Benchmark	S&P/ASX 300 (Accum)
Min Investment Amount	$A 10,000
Redemption Frequency	Daily
Income Distribution	Half Yearly
Fund Size (31 May 2023)	$685.55M
Management Cost	1.03% p.a. Incl. GST
Performance Fee	10.25% on outperformance of the RBA Cash Rate plus a 6% p.a. hurdle (after fees).
Buy / Sell Spread	0.15 % / 0.15 %
Inception Date	30 Jun 2008

Fund facts

- Holds between 20 and 50 positions
- Flexibility to invest up to 20% in international equities
- Portfolio turnover expected to average approximately 30% p.a. over a market cycle

Viewpoint

The Fund, managed by Pengana Capital Group Limited (Pengana), provides investors with a concentrated and high conviction exposure to Australian equities. Pengana invests across the market capitalisation spectrum, whilst maintaining a strong focus on capital preservation. Despite the Fund's disappointing benchmark relative performance, Zenith maintains a positive view of Pengana, given its experienced team of investment professionals and robust investment process.

Pengana is an Australian funds management boutique founded in 2003. Pengana offers a diversified range of equity-based strategies totalling $A 3.1 billion in funds under management, as at 30 April 2023. The Australian equities boutique responsible for the Fund managed approximately $A 717.2 million, as at the same date.

Pengana's Sydney-based Australian equities boutique was established in 2008 and consists of four investment professionals. The team is led by Rhett Kessler, who is supported by Anton du Preez and two analysts. Although relatively small by industry standards, Zenith notes that Pengana's investment team size is appropriate given their investment strategy.

Pengana conducts detailed fundamental analysis to identify stocks that exhibit favourable industry dynamics. Once a stock has been identified, the team assesses its viability based on its valuation. Whilst the valuation process comprises an assessment of both qualitative and quantitative factors, Pengana has a particular focus on assessing after-tax cash earnings yields by analysing financial statements. Zenith believes Pengana's stock selection process is thorough and leverages the experience of the investment team, particularly the strong accounting experience of several team members.

In addition to traditional stock selection, Kessler may invest in a number of discrete positions that are used as both a source of return enhancement and risk mitigation. These positions are expected to reflect Kessler's views on the current global macroeconomic environment. Whilst Zenith believes that many of these trades are consistent with Kessler's capital preservation philosophy, we would prefer Kessler to focus on his core competency of fundamental stock research. However, Zenith acknowledges that these trades are used opportunistically and are not expected to form a material part of the Fund.

Responsibility for portfolio construction rests with Kessler, who prioritises the fundamental quality of a business whilst considering internally derived valuations. Overall, Zenith considers the portfolio construction process to be intuitive, relying on Kessler's ability to structure a diversified portfolio.

Effective 1 July 2019, the performance fee hurdle rate changed to the RBA cash rate plus 6% p.a. (after fees), rather than solely the RBA cash rate. Zenith believes the fee structure is more reflective of its risk profile. However, given that the Fund's risk exposures are primarily driven by Australian equities, we would prefer the Fund's performance fee to be linked to an Australian equity benchmark, which we believe would provide stronger alignment.

Fund analysis

Fund characteristics

Constraint	Value
Number of Stocks	20 to 50
Individual Stock Weight (%)	Max: 15% (10% at initiation)
International Equity Exposure (%)	Max: 20%
Cash (%)	Max: 100%

Investment objective and philosophy

To outperform the RBA Cash Rate over the medium to long-term, plus a margin to compensate investors for the extra risk of investing in Australian Equities whilst maintaining volatility less than the Australian equity market.

Zenith would prefer to see the delineation of a specific outperformance target, as opposed to a descriptive, qualitative objective. Zenith believes this would provide investors with greater transparency with regard to returns expectations and to the level of risk embedded in the Fund.

Pengana's investment philosophy is based on the belief that markets are inefficient over the long term and the ability to accurately forecast becomes more difficult as the time horizon increases.

Pengana seeks to take advantage of these market inefficiencies by adopting a long-term investment horizon when positioning the Fund. The investment team adopt a benchmark unaware, fundamental investment approach with a macroeconomic overlay. Given Pengana's capital preservation focus, the Fund will remain invested in cash if they are unable to find appropriate investments from a risk-return perspective.

Pengana has a particular focus on assessing after-tax cash earnings yields. In practical terms, for a security to be eligible for the portfolio, it is expected to deliver an after-tax cash earnings yield of at least 6% p.a. with the potential for this after-tax cash earnings yield to grow to 10% in five-years.

Zenith believes that the investment approach appropriately leverages the expertise of the investment team.

Portfolio applications

In general, compared to most other asset classes, equities offer investors the opportunity for higher capital growth over the longer term with some income. However, this higher growth is also often associated with higher volatility. Therefore, it is recommended that investors adopt a longer time frame when investing in equities.

Investors should also be cognisant of the fact that the Australian equity market is relatively concentrated, with the Materials and Financials sectors dominating the market. The market also only represents approximately 2% of global equity markets (in terms of market capitalisation). Therefore, to mitigate this concentration risk, Zenith recommends that investors diversify their investments across asset classes, both domestically and globally.

The Fund offers an opportunity to diversify a portfolio, given its relatively concentrated and benchmark unaware approach. The Fund is expected to exhibit significantly different risk/return characteristics and less correlation to other large-cap funds throughout different stages of the investment cycle. Therefore, Zenith believes the Fund would blend well with other large-cap Australian equity funds.

Investors should be aware that whilst the majority of the Fund is expected to be invested in the mid to large capitalisation segment of the market, the Fund has historically maintained a meaningful exposure to small and micro-cap companies. Over the most recent five-year period the Fund has had an average small and micro-cap exposure of 34%.

Pengana may invest up to 20% of the Fund in internationally listed companies, although Zenith notes that this facility has rarely been utilised outside of New Zealand-listed companies.

Where Pengana cannot identify sufficient opportunities that meet its investment criteria, up to 100% of the portfolio may be held in cash. Historically, the Fund's cash exposure has ranged between 5% and 60%. Zenith notes that over the most recent five-year period, the Fund has maintained an average cash exposure of 13%.

The Fund's portfolio turnover is expected to average 30% p.a. over a market cycle, which Zenith considers to be low. Pengana has indicated that approximately 50% of the expected turnover is attributed to resizing existing positions and approximately 50% is due to complete sales and new additions. Given this expected level of turnover, the majority of the Fund's returns are expected to be delivered via capital appreciation in the unit price, rather than through the realisation of capital gains in income distributions. In addition, realised capital gains are highly likely to be eligible for the capital gains tax discount. As such, holding all else equal, the Fund may be more appealing to investors who are high marginal tax rate payers as it will result in superior after-tax return outcomes.

Fund responsible investment attributes

Key Information	Description
Zenith RI classification*	Aware
Has Responsible Investment Policy	Yes
Negative screens**	**Full/Partial**
Human rights abuse	Full
Animal cruelty	Full
Environmental Degradation	Full
PRI Status	
PRI Signatory	Yes

*Zenith RI Classification scale:

- Traditional
- Aware
- Integrated
- Thematic
- Impact

***Data has been supplied by third parties. While such information is believed to be accurate, we do not accept responsibility for any inaccuracy in such data.*

Absolute performance

Performance as at 31 May 2023

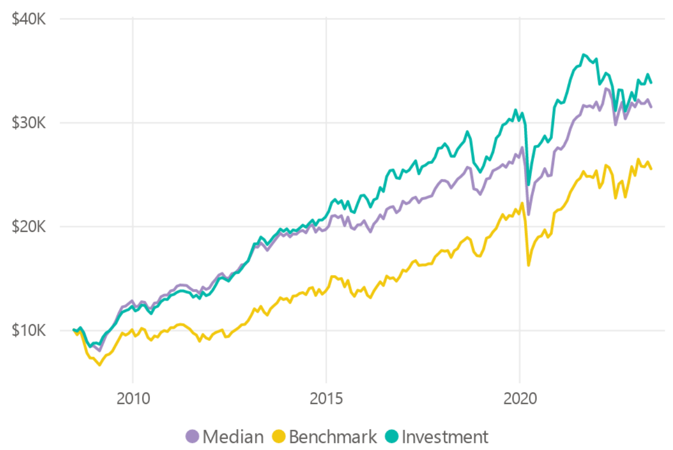
Monthly performance history (%, net of fees)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	BM YTD*
2023	6.12%	-1.16%	0.04%	2.74%	-2.28%								5.34%	2.58%
2022	-6.74%	1.25%	1.88%	-0.64%	-3.02%	-6.99%	6.43%	-0.15%	-6.06%	2.67%	3.04%	-2.32%	-11.06%	-1.76%
2021	-0.92%	0.27%	3.13%	3.57%	2.61%	1.06%	0.26%	2.97%	-0.40%	-1.14%	-0.61%	1.04%	12.32%	17.55%
2020	2.36%	-3.55%	-19.47%	8.54%	6.23%	0.15%	1.49%	2.05%	-2.03%	1.50%	10.18%	2.29%	6.55%	1.74%
2019	2.37%	3.45%	-1.13%	2.90%	4.90%	1.17%	3.20%	0.55%	1.37%	-0.53%	3.51%	-3.30%	19.75%	23.78%

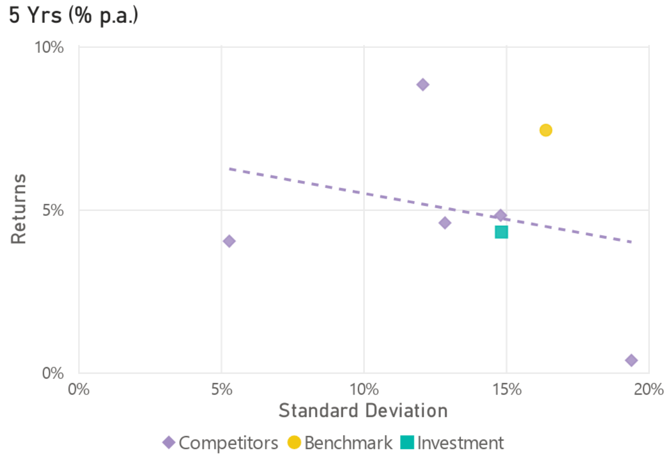
**S&P/ASX 300 (Accum)*

**RBA Cash Rate*

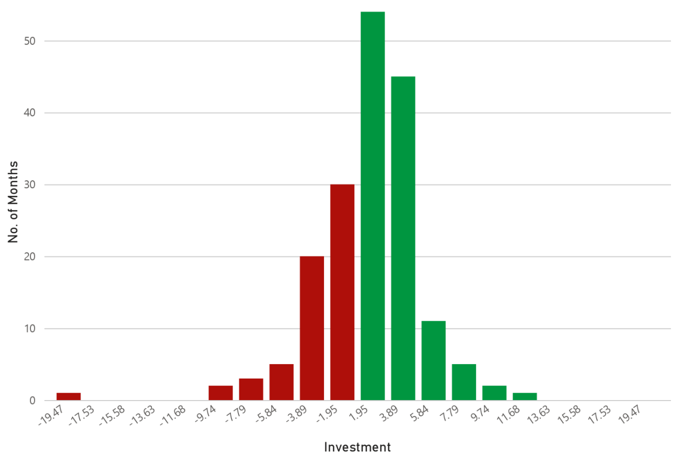
Growth of $10,000



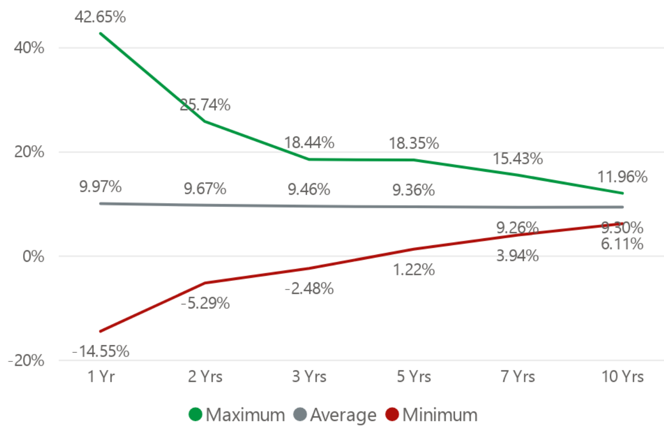
Risk / return



Monthly histogram



Minimum and maximum returns (% p.a.)



Absolute performance analysis

Instrument	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Investment	**1.07%**	**6.95%**	**4.31%**	**6.11%**	**8.51%**
Income	4.97%	5.90%	6.12%	5.42%	4.55%
Growth	-3.90%	1.05%	-1.82%	0.69%	3.96%
Benchmark	**2.36%**	**11.33%**	**7.43%**	**8.10%**	**6.48%**
Median	**-2.08%**	**9.18%**	**5.12%**	**5.71%**	**7.99%**
Cash	**2.64%**	**0.91%**	**1.14%**	**1.69%**	**2.60%**

Ranking within sector (p.a.)

Ranking within Sector	1 Yr	3 Yrs	5 Yrs	Inception
Fund Ranking	3 / 6	3 / 6	4 / 6	2 / 2
Quartile	2nd	2nd	3rd	4th

Absolute risk

Instrument	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Standard Deviation (% p.a.)					
Investment	14.14%	11.71%	14.85%	11.88%	11.50%
Benchmark	17.32%	13.64%	16.41%	13.90%	14.54%
Median	11.47%	9.91%	13.46%	10.87%	11.12%
Downside Deviation (% p.a.)					
Investment	9.88%	7.29%	11.31%	8.66%	7.96%
Benchmark	11.99%	8.38%	12.31%	9.91%	10.40%
Median	9.35%	6.06%	10.45%	8.09%	7.62%

Absolute risk/return ratios

Instrument	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Sharpe Ratio (p.a.)					
Investment	-0.11	0.52	0.21	0.37	0.51
Benchmark	-0.02	0.76	0.38	0.46	0.27
Median	-0.41	0.83	0.30	0.37	0.48
Sortino Ratio (p.a.)					
Investment	-0.16	0.83	0.28	0.51	0.74
Benchmark	-0.02	1.24	0.51	0.65	0.37
Median	-0.50	1.37	0.38	0.50	0.71

For consistency purposes, Zenith benchmarks all funds categorised within the Australian Shares - Absolute Return universe against the S&P/ASX 300 Accumulation Index. Accordingly, all performance and risk measurements are calculated with Zenith's assigned index.

All commentary is as at 30 April 2023.

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Zenith would prefer to see the delineation of a specific outperformance target, as opposed to a descriptive, qualitative objective. Zenith believes this would provide investors with greater transparency with regard to return expectations and to the level of risk embedded in the Fund.

Whilst the Fund has outperformed the RBA Cash Rate over the most recent five and ten-year periods, it has underperformed its Zenith assigned benchmark over the same periods of assessment.

The Fund's risk, as measured by Standard Deviation, has been materially below the benchmark since inception.

Relative performance

Excess returns

Statistic	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Excess Return	-1.29%	-4.39%	-3.12%	-1.99%	2.03%
Monthly Excess (All Mkts)	66.67%	44.44%	43.33%	44.17%	48.60%
Monthly Excess (Up Mkts)	33.33%	29.17%	33.33%	32.05%	30.36%
Monthly Excess (Down Mkts)	100.00%	75.00%	61.90%	66.67%	79.10%

Capture ratios (% p.a.)

Statistic	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Downside Capture	78.67%	80.78%	87.49%	73.18%	57.47%
Upside Capture	75.08%	72.32%	78.71%	73.72%	76.79%

Tracking error (% p.a.)

Instrument	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Investment	5.68%	5.07%	5.66%	6.15%	6.78%
Median	7.81%	5.62%	5.37%	5.00%	5.69%

Information ratio

Instrument	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Investment	-0.23	-0.87	-0.55	-0.32	0.30
Median	-0.57	-0.38	-0.43	-0.48	0.27

Beta statistics

Statistic	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Beta	0.78	0.80	0.85	0.77	0.70
R-Squared	0.91	0.87	0.88	0.81	0.79
Correlation	0.95	0.93	0.94	0.90	0.89

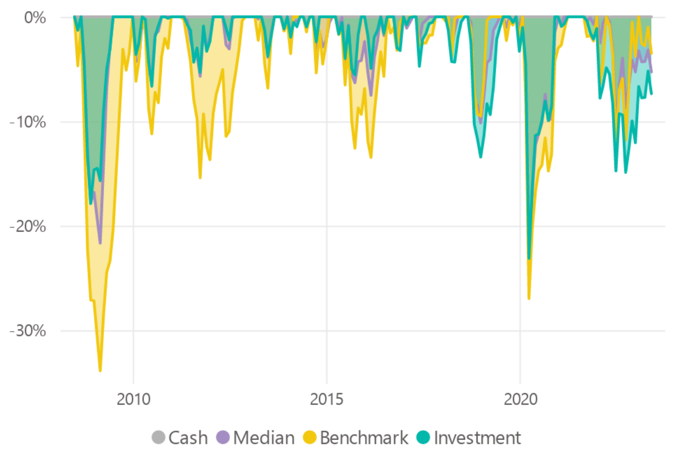
All commentary is as at 30 April 2023.

Zenith seeks to identify strategies that can outperform in over 50% of months in all market conditions, as we believe this represents consistency of manager skill. In addition, we view a strategy's ability to produce stronger upside capture ratios relative to downside capture ratios as an attractive feature. Whilst the Fund has achieved stronger upside capture ratios relative to downside capture ratios since inception, the Fund has failed to achieve this outperformance objective over all assessed periods, with the exception of the most recent one-year period.

Zenith notes that the Fund has shown a greater level of outperformance consistency in falling markets, which is consistent with the Fund's capital preservation focus and relatively high levels of cash.

Drawdown analysis (since inception)

Drawdown analysis assesses the relative riskiness of a Fund versus the benchmark, in reference to capital preservation. The maximum Drawdown is recorded as the percentage decline in the value of a portfolio from peak to trough (before a new peak is achieved). All Drawdown analysis is calculated commencing from the inception date of the Fund in question, and Drawdown analysis for the Fund and benchmark(s) are calculated independently. That is, the largest drawdown for the Fund and benchmark(s) will not always refer to the same time period.



All commentary is as at 30 April 2023.

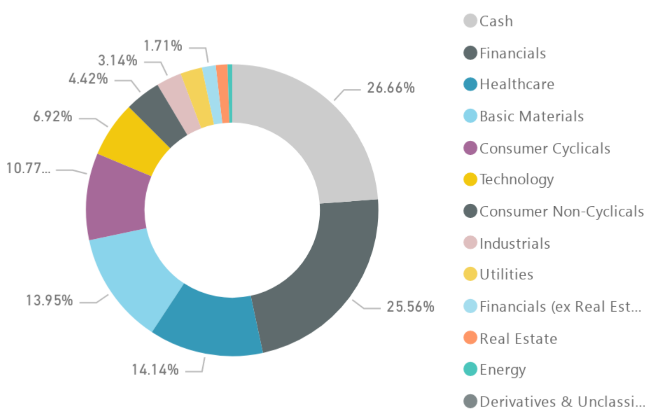
The Fund has generally demonstrated a strong ability to preserve capital relative to the benchmark, which is consistent with Pengana's capital preservation focus. However, we are disappointed by the Fund's inability to protect on the downside during the 2018 and 2022 equity market drawdowns.

Product Exposures

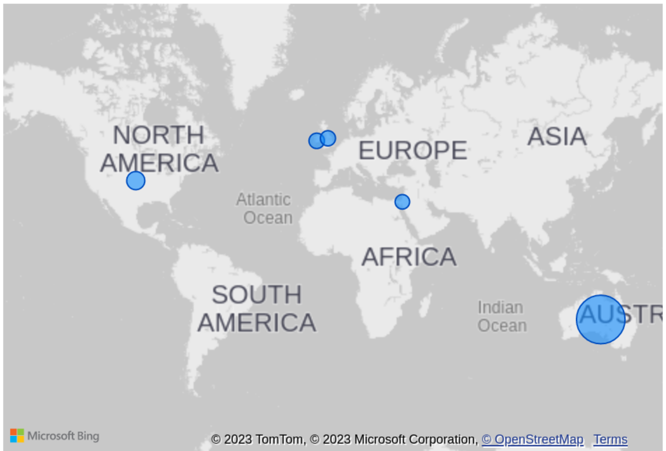
Holdings as at 31 Dec 2022

Stock	Weight	Country	Sector
CSL (AX:CSL)	7.14%	Australia	Healthcare
Telstra Corporation (AX:TLS)	6.87%	Australia	Technology
National Australia Bank (AX:NAB)	5.73%	Australia	Financials
BHP Billiton (AX:BHP)	5.68%	Australia	Basic Materials
ResMed (AX:RMD)	4.58%	USA	Healthcare
Woolworths Group Limited (AX:WOW)	4.53%	Australia	Consumer Non-Cyclicals
Commonwealth Bank of Australia (AX:CBA)	4.37%	Australia	Financials
NIB Holdings (AX:NHF)	4.27%	Australia	Financials
Evolution Mining (AX:EVN)	3.97%	Australia	Basic Materials
Aristocrat Leisure (AX:ALL)	3.84%	Australia	Consumer Cyclicals

Equity sector exposure



Equity country exposure



Fund commentary

Fund risks

Zenith has identified the following key risks of the Fund. Although Zenith believes the risks noted are all significant, we have listed them in order of importance. In addition, we have not intended to highlight all possible risks.

Key person risk: As with most boutique fund managers, Pengana is subject to a level of key person risk. Zenith considers Rhett Kessler as critical to the success of the Fund, with his departure warranting an immediate review of its rating. Zenith notes that this risk is somewhat mitigated by Kessler's substantial co-investment in the Fund and his significant equity ownership in the vehicle holding profit share interests derived from the Fund.

Business risk: Zenith highlights that there has been a material decline in FUM over the past five years from $A 1.45 billion as at 30 June 2018 to $A 717.2 million as at 30 April 2023. Although Pengana maintains significant working capital, we note that continued outflow has the potential to diminish business profitability. Zenith will continue to monitor Pengana's funds under management (FUM) moving forward for continued signs of outflow.

Capacity risk: Excessive levels of FUM can materially hinder the ability of a manager to meet its performance objectives. As at 30 April 2023, Pengana managed approximately $A 717.2 million in the strategy. Pengana has provided a capacity target of 0.5% of the S&P/ASX mid and small-cap indices (approximately $A 3 billion, as at 30 April 2023). Zenith notes that after a period of revising the capacity limit upwards in the early years of the Fund, the limit has now remained stable for many years.

Additionally, Pengana limits the Fund’s exposure to mid and small-cap equities to 50%. Over the past five years, the strategy's exposure to mid, small and micro-cap equities has averaged approximately 45%. Zenith believes this limitation was an indication that the Fund may have been experiencing potential constraints resulting from high levels of FUM.

However, we note that the Fund has experienced a significant decrease in FUM over recent years and as such, we believe that capacity is not as pronounced an issue as it has been in the past. However, we will continue to monitor FUM to ensure it does not begin to impact Fund performance.

Benchmark risk: Zenith notes that the Fund's performance fee is assessed against any increase in net asset value (NAV) subject to three payment conditions; recoupment of prior negative performance, the return must exceed the cumulative RBA Cash Rate plus 6% and the performance fee cannot reduce the net return below the RBA Cash Rate. Given that the Fund's risk exposures are primarily driven by Australian equities, we would prefer the Fund's performance fee to be linked to an Australian equity benchmark, which we believe would provide stronger alignment.

Relative performance risk: The Fund is relatively concentrated, typically holding 20 to 50 positions. Zenith believes that a concentrated portfolio has greater exposure to stock-specific risk than more diversified strategies and, as such, investors should be cognisant that the Fund may significantly deviate from the benchmark and/or peers.

Currency risk: Investments in international markets are exposed to changes in the value of the Australian dollar (AUD) relative to foreign currencies, which may lead to increased levels of volatility. The Fund is permitted to invest up to 20% in stocks listed on foreign stock exchanges.

Financial instrument risk: Kessler has the ability to utilise a number of financial instruments to express macroeconomic views in the Fund. Up to 20% of the Fund in aggregate may be held in exchange traded funds, listed bond securities and derivative instruments. Zenith does not believe that Kessler possesses a competitive advantage outside of Australian equities. Accordingly, we would prefer Kessler to focus on his core competency of fundamental stock research. However, Zenith acknowledges that these trades are used opportunistically and are not expected to form a material part of the Fund.

Derivatives risk: The Fund can use various derivatives including options and futures and these investment securities can be volatile, speculative, illiquid and leveraged.

Security/asset selection

The Fund's initial investable universe consists of all companies listed on the Australian Stock Exchange, however, Pengana has the flexibility to invest in hybrids, listed bonds, precious metals, exchange traded funds, derivatives and international equities.

Investment ideas are typically generated from external sources including investment banks, research houses, industry specialists, competitors, suppliers, customers, company visits and investment professionals from other Pengana equity teams. Research ideas are shared internally through various forums including weekly team meetings chaired by Kessler. Stock ideas are centred on companies exposed to favourable industry dynamics.

Once a stock of interest has been identified, the team assesses its valuation. The valuation process comprises an assessment of both qualitative and quantitative factors.

The qualitative assessment seeks to gain a thorough understanding of the underlying business model, management competence, business model resilience and industry structure. A key element of this process is Pengana's company visitation program, with the investment team attending approximately 150 company visits annually.

The quantitative assessment derives a company valuation through an internally generated financial model. Through an understanding of the company's underlying business model and an in-depth analysis of financial statements, the team produces detailed half-year forecasts on several key valuation metrics. Zenith notes that the majority of the investment team have accounting backgrounds, a skill set that complements the investment process.

In order for a stock to be considered for inclusion in the Fund, it must meet the following criteria:

- Transparent and resilient business model
- Rational cash earnings multiples
- Competent management with a track record of integrity
- Favourable relationship between the market price and the future cash flows of the business
- Solid balance sheet
- Strong underlying intrinsic asset valuation

In addition to traditional stock selection, Kessler may invest in a number of discrete positions that are used as both a source of return enhancement and risk mitigation. These positions are expected to reflect Kessler's views on the current global macroeconomic environment and can involve, for example, expressing currency views through foreign-denominated exchange-traded funds (ETFs). Whilst Zenith believes that many of these trades are consistent with Kessler's capital preservation philosophy, we would prefer Kessler to focus on his core competency of fundamental stock research. However, Zenith acknowledges that these trades are used opportunistically and are not expected to form a material part of the Fund. In Zenith's opinion, Pengana's stock selection process is thorough and leverages the experience of the investment team, particularly the strong accounting-based experience of several team members.

Responsible investment approach

Pengana has an established Responsible Investment Policy, last updated in 2020, that guides its investment decisions.

The Fund has several mandated environmental, social and governance (ESG) exclusions, whilst Pengana incorporates ESG considerations throughout the investment process. Pengana assesses the sustainability of a business through their management practices and culture, social and environmental impact and their compliance with regulatory environments.

Where appropriate, Pengana will raise ESG concerns with companies and encourage sound ESG practices. Zenith believes that this qualitative analysis of a company's operations is crucial on a forward-looking basis, given that a company's performance with regards to ESG considerations is increasingly being reflected in the company's share price. Overall, Zenith is comfortable with Pengana's approach to ESG.

Zenith has assigned the Fund a responsible investment classification of Aware.

Portfolio construction

Responsibility for portfolio construction rests with Kessler, prioritising the fundamental quality of a business, with the internally derived valuation gap being a secondary consideration.

Prior to entering a position, Kessler considers the market's appetite for risk, potential merger and acquisition activity and market sentiment (including technical analysis and share register composition). The decision to buy or sell a security and the resultant portfolio weighting is based on Kessler's level of conviction and the attractiveness of the risk/reward profile.

The starting point for the Fund is to be 100% invested in cash. When the team identifies investment ideas that have the potential to meet the investment hurdle (an after-tax cash earnings yield of 6% p.a. with the potential to grow to 10% in five years) capital will be deployed.

The Fund is relatively concentrated and expected to hold 20 to 50 positions, with position sizes typically between 3% and 7%. The maximum allocation to an individual stock is 10% at purchase, with a hard limit of 15% to allow for capital appreciation.

There are no strict sector or benchmark limits imposed. The Fund can invest up to 20% in international equities, although Zenith notes that this has rarely been utilised outside of New Zealand listed companies.

Whilst the majority of the Fund is expected to be invested in the mid to large capitalisation segment of the market, the Fund has historically maintained a meaningful exposure to small and micro-cap companies. Over the most recent five-year period the Fund has had an average small and micro-cap exposure of 34%.

If Pengana is unable to identify appropriate investment opportunities, the Fund will hold cash. The decision to allocate to cash is an outcome of the investment process as opposed to a market timing decision. Historically, the Fund's cash allocation has ranged from 5% to 60%. Over the most recent five-year period, the Fund's cash exposure has averaged 13%.

Kessler will sell a stock under the following circumstances:

- Reduced conviction in the investment thesis
- Target price has been reached

The Fund's portfolio turnover is expected to average 30% p.a. over a market cycle, which Zenith considers to be low. Kessler will also consider tax consequences when buying or selling a stock to ensure the portfolio is managed in a tax-effective manner.

Overall, Zenith considers the portfolio construction process to be intuitive, relying on Kessler's ability to structure a diversified portfolio.

Risk management

The Fund operates within relatively wide risk constraints.

The first stage of risk management is undertaken by the investment team in its fundamental analysis of eligible securities, in conjunction with its quantitative assessments.

The second stage of risk management is undertaken by an independent risk management team within Pengana. Various checks occur on a daily and weekly basis to ensure the Fund is compliant with its risk constraints. The independent risk management team utilises Bloomberg and an internally developed application to monitor risk across the portfolio.

Zenith believes the firm's risk management procedures are adequate and well-integrated into each stage of the investment process. However, investors should note that there is a significant reliance on the skills and expertise of Kessler.

Investment fees

	Fund	Sector Average
Total Fees and Costs (RG 97)	1.78 % p.a.	1.28 % p.a.
Management Fees and Costs	1.07 % p.a.	0.82 % p.a.
Transaction Costs	0.02 % p.a.	0.04 % p.a.
Performance fees as at 30 Jun 2022	0.69 %	0.83 %
Performance fees description	10.25% on outperformance of the RBA Cash Rate plus a 6% p.a. hurdle (after fees).	
Management Cost	1.03 % p.a.	0.87 % p.a.
Buy / Sell spread	0.15 % / 0.15 %	0.22 % / 0.22 %

All fees and costs are inclusive of GST unless indicated otherwise. The Performance Fee shown is the performance fee disclosed in the PDS. It is calculated by taking the average performance fees charged over the last five financial years (or less if the investment or performance fee mechanism has not been in place for five financial years).

The sector average management cost is based on the average management cost of all flagship Australian Large Cap funds surveyed by Zenith.

The Fund's performance fee of 10.25% is subject to:

- Recoupment of prior negative performance
- Return must exceed the cumulative RBA cash rate plus 6% p.a.
- Performance fee cannot reduce the net return below the RBA Cash Rate

The performance fee is accrued daily and is paid semi-annually.

Effective 1 July 2019, the performance fee hurdle rate changed to the RBA cash rate plus 6% p.a. (after fees), rather than solely the RBA cash rate. In addition, the performance fee payment period changed from quarterly to semi-annually. Zenith believes the Fund’s fee structure is now more reflective of its risk profile. However, given that the Fund's risk exposures are primarily driven by Australian equities, we would prefer the Fund's performance fee was linked to an Australian equity benchmark, which we believe would provide stronger alignment.

Overall, Zenith believes the Fund's fee structure is expensive, relative to peers, given its stated objectives. In addition, we believe that investors have not been sufficiently compensated by way of risk-adjusted performance given the fees paid over the past three years (ending 30 June 2022).

(The fees mentioned above are reflective of the flagship version only, fees may differ when the product is accessed through an alternate investment vehicle such as a platform.)

About the fund manager

Investment personnel

Name	Title	Industry Experience (yrs)	Tenure (yrs)	Location
Rhett Kessler	CIO and Senior Fund Manager	28	17	Sydney, Australia
Anton du Preez	Deputy CIO and Fund Manager	32	14	Sydney, Australia

Organisation

Pengana Capital Group Limited (Pengana) is an Australian funds management boutique founded in 2003. Pengana aims to support experienced fund managers with long track records, providing staff and support whilst leaving the investment staff entirely responsible for the performance of the funds that they manage.

In June 2017, Pengana merged with Hunter Hall International Limited (ASX: HHL). As a result, HHL was renamed Pengana Capital Group Limited (ASX: PCG). The combined entity offers a diversified range of equity-based strategies totalling $A 3.1 billion in funds under management (FUM), as at 30 April 2023.

PCG is majority-owned by Pengana staff and Washington H. Soul Pattinson (ASX: SOL). SOL has a 39.25% shareholding in PCG after holding a material interest in Hunter Hall prior to the merger and subsequently purchasing NAB Asset Management's stake in Pengana in March 2017. The majority of equity ownership resides with Pengana staff and directors, which Zenith views positively.

The Fund was established in July 2008 by Rhett Kessler in conjunction with Pengana. Pengana and the Fund's management team equally share in the profits generated by the business unit.

As at 30 April 2023, Pengana managed $A 717.2 million in the strategy, all of which was in the Fund.

Personnel

Pengana's Sydney-based Australian equities team is led by Rhett Kessler. Responsibility for portfolio construction rests with Kessler, with Anton du Preez assisting in a backup capacity.

Kessler has over 22 years of experience in investment management, including senior fund management roles at Liberty Asset Management in South Africa, UBS Australia and IAG Asset Management. Kessler is responsible for stock selection and oversight of the company models derived by each analyst. Zenith has met with Kessler on several occasions and considers him a capable investor.

Further support is provided by Mark Christensen and David Glasser. Each member of the team has generalist responsibilities. As Pengana's investment process does not incorporate any formal filters, each investment team member is responsible for generating stock ideas from the entire investable universe.

Team interaction is frequent, with a team meeting occurring each week to discuss stocks and valuations.

Pengana and the Fund's management team equally share in the profits generated by the business unit. In addition, the investment team have significant co-investment in the Fund.

Zenith believes there is an appropriate alignment of interests between the team and investors.

Although relatively small by industry standards, Zenith notes that Pengana's investment team size is calibrated to its investment strategy. However, we believe further dedicated resources would provide us with a greater level of confidence given the breadth of the investment universe.

About the sector

Sector characteristics

The Zenith 'Australian Shares – Large Companies' sector consists of long-only strategies investing in the Australian equities asset class. The sector incorporates both benchmark aware and benchmark unaware strategies that focus predominantly on stocks with large market capitalisations. Additionally, the sector is one of the most competitive in the investment landscape, based on the number of managers and strategies available to investors. Despite the competitiveness of the sector, Zenith expects rated long-only products to outperform the passive index over the long term.

Zenith benchmarks all funds in this sector against the S&P/ASX 300 Accumulation Index. However, many managers in this sector benchmark themselves against the S&P/ASX 200 Accumulation Index. Both indices are market-capitalisation weighted, resulting in companies with the largest market capitalisations receiving the highest weightings within the index. Over the longer term, Zenith believes there will be minimal difference between the return profiles of these indices.

The Australian equities asset class, as represented by the S&P/ASX 300 Index, is highly concentrated and narrow. Zenith considers a company to be a large-cap company if it falls within the S&P/ASX 50 Index, with stocks falling within the S&P/ASX 51 to 100 considered mid-cap companies. Furthermore, Zenith considers stocks that fall within the S&P/ASX 101 to 300 to be small-cap companies.

As at 31 March 2023, the Financials and Materials sectors combined represented a significant portion of the S&P/ASX 300 Accumulation Index, with the Financials sector accounting for approximately 27% and Materials approximately 26%. In addition, the top 10 stocks represented approximately 46% of the Index and the top 20 stocks represented approximately 61%.

Sector risks

Funds within the 'Australian Shares – Large Companies' sector are exposed to the following broad risks:

Market and economic risk: A sustained downturn across the Australian equity market is a risk to the absolute performance of funds in the sector. Additionally, changes in economic, social, technological or political conditions, as well as market sentiment, could also lead to negative fund performance. This risk can be significantly reduced by investors adhering to a fund's prescribed investment timeframe.

Specific security risk: This is the risk associated with an individual security. The price of common shares in a company may be affected by unexpected changes in company operations such as changes in management or the loss of a significant customer.

Liquidity risk: This is the risk that a security or asset cannot be traded promptly, due to insufficient trading volumes in the Australian equity market. When trading volumes are low, buyers/sellers can significantly impact the price of a security when entering or exiting a position.

Style bias risk: Australian equity managers employ different investment styles such as Growth, Value or Neutral (a combination of Value and Growth). Each style is conducive to certain market conditions. This risk can be significantly reduced by investors adhering to a fund’s prescribed investment timeframe.

Capacity risk: High levels of funds under management (FUM) can present additional challenges to an Australian equity manager. High FUM has the potential to restrict a manager's ability to trade efficiently and/or be forced to disclose substantial shareholdings to the market (most common in smaller companies).

Regulatory risk: All investments carry the risk of being affected by changes to government policies, regulations and laws. Security prices in which funds may have exposure are also subject to certain risks arising from government intervention in the Australian equity market. Such regulation or intervention could adversely affect fund performance.

Administration and operations

Responsible Entity	Pengana Capital Limited

Zenith rating

Report certification

Date of issue: 29 Jun 2023

Role	Analyst	Title
Analyst	Sean Currie	Investment Analyst
Sector Lead	Quan Nguyen	Head of Equities
Authoriser	Bronwen Moncrieff	Head of Research

Rating history

As At	Rating
29 Jun 2023	Recommended
30 Jun 2022	Recommended
24 Jun 2021	Recommended
18 Jun 2020	Recommended
20 Jun 2019	Recommended
21 Jun 2018	Recommended

Last 5 years only displayed. Longer histories available on request.

In March 2021, Zenith implemented a new ratings methodology for products classified as Traditional Index. Any rating issued from this date forward for Traditional Index products only reflect this change in methodology, with the relevant Traditional Index ratings being Index Approved, Index Recommended and Index Highly Recommended. Ratings issued for Traditional Index products prior to March 2021 are retained for historical purposes in line with our regulatory requirements and were issued in line with Zenith's Fund Research Methodology. Further information in relation to Zenith's Traditional Index Research Methodology and Traditional Index Ratings can be found on the Zenith website.

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This report refers to the Australian unit trust for the fund, and the fund and benchmark returns are all in AUD.

Zenith has charged Pengana Capital Group a fee to produce this report.