Lonsec

5
Highly Recommended

Product Review
Pengana Emerging Companies Fund

ISSUE DATE 30-09-2021

About this Review

ASSET CLASS REVIEWED	AUSTRALIAN EQUITIES
SECTOR REVIEWED	AUSTRALIAN SMALLER COMPANIES
SUB SECTOR REVIEWED	SMALL CAP
TOTAL FUNDS RATED	41

About this Fund

ASIC RG240 CLASSIFIED	NO
FUND REVIEWED	PENGANA EMERGING COMPANIES FUND
APIR CODE	PER0270AU
PDS OBJECTIVE	TO OBTAIN RETURNS GREATER THAN THE S&P/ASX SMALL ORDINARIES ACCUMULATION INDEX OVER ROLLING THREE YEAR PERIODS AFTER FEES.
INTERNAL OBJECTIVE	TO OUTPERFORM THE BENCHMARK BY 5% P.A. AFTER FEES OVER ROLLING THREE-YEAR PERIODS
STATED RISK OBJECTIVE	TRACKING ERROR NOT SPECIFICALLY TARGETED HOWEVER EXPECTED TO BE IN THE RANGE OF 6-9% P.A.
DISTRIBUTION FREQUENCY	SEMMI-ANNUALLY
FUND SIZE	$823.2M (JULY 2021)
FUND INCEPTION	NOVEMBER 2004
MANAGEMENT COSTS	1.334% P.A.
PERFORMANCE FEE	20.5% (OF FUND RETURN ABOVE INDEX, WITH HIGH WATER MARK)
RESPONSIBLE ENTITY	PENGANA CAPITAL LIMITED

About the Fund Manager

FUND MANAGER	PENGANA CAPITAL
OWNERSHIP	50% PENGANA HOLDINGS, 25% STEVE BLACK & 25% ED PRENDERGAST
ASSETS MANAGED IN THIS SECTOR	$823.2M (JULY 2021)
YEARS MANAGING THIS ASSET CLASS	16

Investment Team

PORTFOLIO MANAGER	STEVE BLACK, ED PRENDERGAST
INVESTMENT TEAM SIZE	2
INVESTMENT TEAM TURNOVER	NIL
STRUCTURE / LOCATION	CO-PORTFOLIO MANAGER / MELBOURNE

Investment process

STYLE	GROWTH AT A REASONABLE PRICE (GARP)
BENCHMARK	S&P/ASX SMALL ORDINARIES ACCUMULATION INDEX
TYPICAL STOCK NUMBERS	50-70
TYPICAL CAPITALISATION BIAS	SMALL
KEY PORTFOLIO LIMITS	STOCK: INDEX +7%; SECTOR: ABSOLUTE 20%
MAX. OF ISSUED CAPITAL OF ANY ONE STOCK	10%
MAX. CASH LIMIT	10%
MIN. MARKET CAPITALISATION	$25M
CAPACITY	APPROX. 0.5% TOTAL MARKET CAP OF THE INDEX

Fund rating history

SEPTEMBER 2021	HIGHLY RECOMMENDED
JULY 2020	HIGHLY RECOMMENDED
JANUARY 2019	HIGHLY RECOMMENDED

What this Rating means

The **'Highly Recommended'** rating indicates that Lonsec has very strong conviction the financial product can generate risk adjusted returns in line with relevant objectives. The financial product is considered a preferred entry point to this asset class or strategy.

Strengths

- The Fund's Co-Portfolio Managers, Ed Prendergast and Steve Black, are considered highly qualified, having built a strong pedigree in Australian small cap investing.
- The investment approach of the Fund is long-standing, with a strong track record over multiple market cycles.
- The Manager has shown a strong commitment to capacity management.

Weaknesses

- The Fund has not met its internal investment objective over the three year period.
- The Fund's total fee load is at the upper end of the peer group.

Fund Risk Characteristics

	LOW		MODERATE		HIGH
BUSINESS SUSTAINABILITY RISK			●		
CAPITAL VOLATILITY					●
SECURITY CONCENTRATION RISK			●		
SECURITY LIQUIDITY RISK			●		

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

BIOmetrics

Aggregated risks

	1	2	3	4	5	6	7
STD RISK MEASURE							●

A Standard Risk Measure score of 7 equates to a Risk Label of 'Very High' and an estimated number of negative annual returns over any 20 year period of 6 or greater. This is a measure of expected frequency (not magnitude) of capital losses, calculated in accordance with ASFA/FSC guidelines.

	LOW		MODERATE		HIGH
RISK TO INCOME		●			

Features and benefits

	LOW		MODERATE		HIGH
COMPLEXITY		●			
ESG		●			

ANALYST: ROBBIE LEW | APPROVED BY: BALRAJ SOKHI

Pengana Emerging Companies Fund

Fee profile

	LOW	MODERATE	HIGH
FEES VS. UNIVERSE			●
FEES VS. ASSET CLASS			●
FEES VS. SUB-SECTOR			●

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

What is this Fund?

- The Pengana Emerging Companies Fund ('the Fund') employs an active 'bottom-up' investment approach that Lonsec would broadly characterise as a 'GARP' (Growth at a Reasonable Price) investment style. The Manager, Pengana Capital, focuses heavily on stocks which it considers to be 'under-researched' in the small and micro-cap market, believing that limited broker coverage in the smaller end of the market leads to greater pricing inefficiencies existing relative to the large cap market.
- The Manager places an emphasis on identifying the quality factors exhibited by companies. This assessment is then overlaid with valuation measurements. The Manager's investment philosophy has not changed since the inception of the Fund in 2004. Investors should note that the Manager's philosophy leads to the exclusion of resources and mining, A-REITs and biotech stocks from the Fund's investable universe. The emphasis on quality also means the Fund is likely to outperform peers in 'down' markets but that it may underperform in 'up' markets.
- The Fund's internal performance objective is to outperform the S&P/ASX Small Ordinaries Accumulation Index ('the Index') by 5% p.a. (net of fees) over rolling three-year periods. It is managed in a reasonably active fashion (with ex ante tracking error not being a key risk measure) and the portfolio is generally well diversified holding between 50-70 stocks. Lonsec believes that diversification is particularly important in the small cap sector, given the level of risk associated with many individual small companies, although it is also worth noting that diversification comes at the cost of reducing the weight to a Manager's best ideas.
- As per the Fund's PDS dated 29 October 2020, the total management cost consists of a management fee of 1.334% p.a.and a performance fee calculated as 20.5% of the out-performance against the Index plus 1.334% p.a. (hurdle), subject to 'high watermark' and with no reset clause. As per the PDS, the performance fee estimate has been determined with reference to the Fund's performance relative to the index for the financial years from 1 July 2015 until 30 June 2020, which amounted to 0.349%p.a.
- In general, Lonsec supports the concept of performance fees provided they are appropriately structured. Lonsec considers an appropriate structure to be one where the performance fee is in-line with industry standard (in percentage terms), where the fee is subject to an appropriate hurdle rate of return, and where the fee is subject to a prior 'high water mark'. Overall, Lonsec notes that Manager's fee structure to be amongst the highest in the peer group. Lonsec also notes that the hurdle for the performance fee is low relative to its performance target, there is no cap on the level of performance fees paid and that the Manager can accrue a performance fee where fund performance is negative although it cannot be paid. While cognisant of the fee, Lonsec sees this as justified to a degree due to the Managers strong capacity management discipline.
- During the financial year ended 30 June 2020, the net transaction costs for the Fund were estimated at 0.183% p.a. of the NAV of the Fund. Net transaction costs are costs incurred in managing the Fund (including explicit and implicit costs of buying and selling assets, the cost of hedging/protection strategies and/or when there are applications or redemptions of fund units by investors) that are not covered by the buy/sell spread. Buy/sell spreads are subject to change depending on market conditions. Refer to the Manager for current buy/sell spreads.

Using this Fund

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

- Small cap and mid cap funds invest in a market that is less liquid and more volatile than the large cap Australian equity market. This Fund should be used to complement large cap exposure in clients' portfolios, rather than replace it, with up to one fifth of the Australian equities component of a portfolio being invested in small caps. Lonsec's model portfolio asset allocation (traditional assets only) is limited to 'Growth' and 'High Growth' risk profiles.
- The Fund is subject to equity market risk and movements (both positive and negative) in the share prices of the underlying securities in the portfolio. Investors should therefore be aware that the Fund may experience periods of negative returns and that there is a risk of potential capital losses being incurred on their investment.

Suggested Lonsec risk profile suitability

SECURE	DEFENSIVE	CONSERVATIVE	BALANCED	GROWTH	HIGH GROWTH
				●	●

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

Changes Since Previous Lonsec Review

- There have been no material changes to the investment process since the previous review.

Lonsec Opinion of this Fund

People and resources

- Lonsec considers the two-person investment team of Steve Black and Ed Prendergast to be one of the most highly experienced in its Australian equities small cap peer group. The pair have built a proven track record and strong reputation in small cap investing, with both having been co-Portfolio Managers of the Fund since its inception in November 2004. Lonsec is pleased to observe the partnership continues to function successfully.
- Whilst noting the excellent experience of the investment team, the team size of two is smaller than the peer group average. Moreover, given the

'boutique' nature of the Manager, the investment team does not have access to the range of in-house resources generally enjoyed by larger, institutional peers (such as quantitative resources or dedicated dealers). While this is considered to be a disadvantage to some extent, Lonsec notes the partnerships in place with Pengana Capital (marketing and infrastructure support) and BNP Paribas (back office functions) allow the team to focus on research and portfolio management rather than non-investment functions, a luxury not always afforded to other boutique investment teams.

- On 1st June 2017, Pengana Holdings Pty Ltd merged its business with Hunter Hall International Limited (Hunter Hall). The merger was effected by Hunter Hall acquiring all the shares in Pengana in return for the issuance of approximately 74.1 million Hunter Hall shares to Pengana shareholders. As part of this allotment, key personnel within the Pengana business were granted shares under a loan share plan in the now listed combined entity, Pengana Capital Group. Lonsec is pleased to observe that the corporate merger has had no impact on the investment team.
- Lonsec considers the alignment of interests between the investment team, Pengana and end investors to be strong. The boutique structure in place whereby the portfolio managers' and Pengana each own 50% of the business allows for performance fees earned to be passed through to equity-holders in the form of higher dividends. The alignment with end investors is further supported by the co-investment into the Fund by both Black and Prendergast.
- Lonsec considers key person risk ('KPR') in Black and Prendergast to be high. The current co-Portfolio Manager structure has a natural lower level of KPR compared to structures reliant on one lead portfolio manager, a structure adopted by some small cap teams. KPR is further mitigated by the equity stake held in the business by Black and Prendergast and the performance fee structure. However, the departure of either Black or Prendergast would result in Lonsec reassessing the current rating. Lonsec notes that at present, there is no succession plan in place. Whilst the team remain fully committed to the strategy, Lonsec will look for an articulation of a succession plan at future reviews.

Research and portfolio construction

- Given the nature of the Manager's investment approach, a significant proportion of the research effort involves contact with company management. Lonsec considers the volume of company contact undertaken by the team to be a relative attraction of the Fund, believing that the ability to assess the quality of management and their ability to deliver on their respective business strategies to be a crucial element of small cap investing. Lonsec observes the broader research effort to be predominantly 'bottom-up' in nature, with company-specific and financial analysis conducted to generate sufficient levels of conviction relevant to valuation targets.
- Fundamental company analysis focuses on assessing the predictability and visibility of earnings with close examination of qualitative factors that are expected to affect profit drivers. Discounted Cash Flow ('DCF') is the primary valuation methodology used to derive a company's intrinsic value with consideration of additional valuation metrics where necessary. Whilst Lonsec considers the Manager's research process to be in-line with comparable peers, albeit somewhat less structured. This is a reflection of the investment team's approach, preferring to remain nimble to account for the idiosyncrasies present at this end of the market capitalisation spectrum. Lonsec is comforted in this aspect by the Manager's long term and successful track record of applying the process to small cap investing.
- A key driver of weighting considerations within portfolio construction is the upside to assessed valuation derived from DCF modelling in conjunction with the Quantitative Scoring Matrix ('QSM'), a qualitative assessment of company traits that are difficult to accurately incorporate into valuation models. The QSM encompasses factors such as valuation confidence, history of cash flow delivery and stock liquidity amongst others.
- Black and Prendergast as co-Portfolio Managers are equally accountable for portfolio construction which is driven by their judgement and skills rather than a specific set of rules. All decisions involving more than a 0.5% change in portfolio weight must be agreed upon by both Portfolio Managers. Lonsec notes the portfolio construction process is highly intuitive, any concerns about the less structured investment process are outweighed by the co-Portfolio Managers extensive co-tenure working together and their experience in small caps investment management. Stocks are typically included in the portfolio based on a three-year view. Sell decisions are driven by positions either reaching their target price, a change in fundamental view of the stock or relatively more attractive companies being available.
- While Lonsec considers the portfolio to be actively managed, Lonsec highlights that a small portion (typically 8-10%) of the portfolio are stocks held to hedge against the portfolio diverging too far from the benchmark. This risk mitigation policy has been in place for the last 11 years and is considered by Lonsec to be a pragmatic way of managing benchmark risk.

ESG Integration

- Whilst the Manager has articulated a commitment to the integration of ESG within their investment process, Lonsec observes little evidence in their public positioning and notes that ESG policies are accessible on the firm's website. Overall Lonsec views the strength of this commitment to be behind peers in this sector.
- Lonsec notes the Manager does not provide any details on proxy voting or engagement policies and observes the Manager does not report on active ownership activities (company engagement and proxy voting outcomes). This contrasts with industry norms.
- ESG factors are considered in the Manager's investment process to the extent that these factors may impact the performance of an investment over time. Furthermore, elements of ESG are visible within the valuation processes. On a peer relative basis, Lonsec considers the overall level of ESG integration within this Fund to be low to moderate.

Pengana Emerging Companies Fund

Risk management

- Risk management is inherently built into the Manager's focus on investing in 'quality' companies. The Fund also has 'hard' stock limits in place with regards to the stock and sector limits and these exposures are monitored daily. The above mentioned benchmark-risk portion of the portfolio is an additional tool that is utilised to calibrate risk levels.
- Lonsec notes the Fund has greater levels of diversification compared to small-cap peers and the Manager has consistently demonstrated a strong sell discipline, both of which reflect the strong risk management culture of the investment team. Lonsec notes that beyond the mandated risk and exposure limits, risk-control decisions can be largely qualitative and subjective in nature, guided by the portfolio managers' experience and judgement.
- Lonsec considers the Manager to have adequate risk management parameters and tools in place to sufficiently monitor portfolio risks such as stock and sector exposures. In addition to compliance checks undertaken by Pengana Capital, risk management is augmented via weekly exception reporting conducted by BNP Paribas.

Funds Under Management (FUM)

- The Manager currently manages around $823M in Australian small caps as at July 2021. The Fund has been 'soft' closed for many years as the Manager actively manages flows to keep it comfortable within capacity limits. Lonsec is pleased that the Manager has historically demonstrated very strong capacity discipline.
- Lonsec's view is that managing high levels of FUM is more difficult, as it reduces the ability to trade in and out of less liquid stock positions without market impact. In addition to disadvantages with trading, large FUM may also result in a number of substantial shareholder positions. These occur when a shareholder's position is greater than 5% of a total company's shares. For substantial holdings, shareholders must quickly notify the market of any trading activity in the stock.
- The investment team has been more proactive than many of its peers in managing the capacity of the Fund, showing an impressive awareness of the negative performance implications that can result from managing large amounts of FUM in the small cap sector. The Manager has set a capacity limit for the strategy of 0.5% of the total market capitalisation of the Index which the strategy sits comfortably under. This approach has been partly driven by Black's prior portfolio management experience where he was responsible for managing a small cap fund with a high level of FUM.

Performance

- The Fund's internal performance objective is to outperform the Index by 5% p.a. (after fees) over rolling three-year periods. The following performance commentary is quoted on an after fee basis for the period ending 31 July 2021.
- Over the past three years, the Fund returned 11.8% p.a outperforming the Benchmark by 2.6% p.a. whilst aligning to peer median performance. The Fund has thus fallen short of its internal objective and Lonsec observes more broadly that the Fund has not met this internal investment objective since September 2017. Lonsec is cognisant of the Fund's inability to invest in resource stocks does impede relative outperformance opportunities during resource-led rally as observed during 2H 2017 to 1H 2019.
- Having said this, the longer term performance of the Fund remains strong. Over the ten-year period, the Fund returned 13.60% p.a, outperforming the Benchmark by 7.7% p.a and the peer median return by 2.9% p.a.
- Over the shorter one-year period, the Fund returned 49.4% outperforming both the Benchmark by 17.1% and the Lonsec peer median by 11.7%.
- A notable feature of the Fund is its resilient 'down' market outperformance over long market cycles except during broad-based market drawdowns. A function of the Manager's focus on quality and management competence, the Fund has outperformed in 70% of 'down' markets over the ten-year period ended 31 July 2021.

Overall

- Lonsec has maintained the Fund's **'Highly Recommended'** rating at its latest review. Lonsec continues to hold in high regard the co-Portfolio Managers, Steve Black and Ed Prendergast, who it considers to be two highly qualified investors with a strong pedigree in small cap investing. The pair have built a strong track record having managed the Fund through multiple market cycles since 2004. Additionally, the boutique structure of the Fund offers strong alignment with investors. Lonsec is also pleased to observe the Manager's continued discipline with regards to managing capacity.
- Lonsec notes the Fund's has not met its internal investment objective over the three year period. That said, short term relative performance has improved. Furthermore, the Fund's total fee load is at the upper end of the peer group.

People and Resources

Corporate overview

The Fund was formerly managed by Pengana Holdings Pty. Ltd., the owner of Pengana Capital Limited which was jointly owned by Pengana Staff, Directors and other minority interests (50.1%) and nabInvest (a wholly owned subsidiary of National Australia Bank, 49.9%). On 1st June 2017, Pengana merged its business with Hunter Hall International Limited (Hunter Hall).

The merger was effected by Hunter Hall acquiring all the shares in Pengana in return for the issuance of approximately 74.1 million Hunter Hall shares to Pengana shareholders. Following the merger, Hunter Hall shareholders own approximately 27% and Pengana shareholders own approximately 73% of the issued equity of Hunter Hall, comprising approximately 101.5 million shares post transaction. On completion of the merger Hunter Hall was renamed Pengana Capital Group Limited (Pengana).

As a combined funds management business, Pengana manages approximately $4 billion in FUM across global and Australian equity strategies as at July 2021. Pengana employs over 50 staff including approximately 17

Pengana Emerging Companies Fund

investment professionals across offices in Sydney and Melbourne. The directors and staff currently own circa 41% of the business. The investment team responsible for this Fund is based in Melbourne.

All of Pengana's underlying managers are boutique in nature with profit sharing arrangements in place with the responsible portfolio management teams and Pengana. Additionally, key members of the team are aligned to the headline business via the allotment of shares under a loan share plan which have a five year escrow period from the date of the merger

Size and experience

NAME	POSITION	EXPERIENCE INDUSTRY / FIRM
STEVE BLACK	PORTFOLIO MANAGER	25 / 16
ED PRENDERGAST	PORTFOLIO MANAGER	27 / 16

Pengana employs a flat team structure with Black and Prendergast equally responsible for managing the portfolio. From Lonsec's observations there is a very collegiate environment at Pengana with the two team members working closely in all aspects of the research and portfolio construction process. Back office and administration functions have been outsourced to BNP Paribas and Pengana Capital is responsible for marketing.

Prior to joining Pengana, Black spent ten years at Goldman Sachs JBWere firstly as a small caps analyst then eight years as portfolio manager of the Emerging Leaders Fund. Under the management of Black the Goldman Sachs JB Were Emerging Leaders Fund had a sustained period of strong performance.

Prior to joining Pengana with Black, Prendergast spent 11 years as a broker predominately at ABN AMRO and Citigroup. During his time at Citigroup, Prendergast was well regarded, including being the BRW industry survey's number one rated small cap analyst in 2003 and 2004 (a survey of industry participants, including peers).

Remuneration / alignment of interests

The Manager is entitled to a performance fee of 20.5% for after-fee returns above the Index. As Black and Prendergast are each significant stakeholders in the business; the performance fee serves to further align their interests with investors by incentivising them to outperform the Index and recoup any underperformance. In addition, both Black and Prendergast are co-invested in the Fund further aiding their alignment of interests with end investors.

Research Approach

Overview

INVESTMENT STYLE	GARP
NO. OF STOCKS IN UNIVERSE	800
INVESTMENT UNIVERSE	AUSTRALIAN AND NEW ZEALAND COMPANIES LISTED OUTSIDE THE S&P/ASX50.
NO. OF STOCKS FULLY MODELED	~300 UP TO DATE LIVE MODELS
KEY SCREENS	MIN MARKET CAP $25M – EXCLUDE BIOTECH, A-REITS & RESOURCE COMPANIES
TOP-DOWN	0%
BOTTOM-UP	100%
QUALITATIVE ANALYSIS	MANAGEMENT QUALITY
RESEARCH INPUTS	EXTENSIVE COMPANY CONTACT – INDUSTRY-BASED FEEDBACK VIA UNLISTED COMPANIES
USE OF BROKER RESEARCH	PRIMARILY USED TO ASSESS ALTERNATIVE ASSUMPTIONS AND VALUATIONS MADE BY THE INVESTMENT COMMUNITY
VALUATION APPROACH – PRIMARY	DCF
VALUATION APPROACH – SECONDARY	P/E RATIO, EV/EBITDA RATIO, DIVIDEND YIELD

The research process is not overly structured and is designed to be flexible to account for the vagaries of the small capitalisation universe and each company's specific idiosyncrasies. Company views are determined by fundamental research inputs and a valuation (primarily DCF). The valuation process will also include a mix of factors where necessary including, one-year forecast price earnings (P/E) multiples, one-year forecast Enterprise Value / Earnings before Interest Tax and Amortisation (EV/EBITA) multiples, dividend yield, market capitalisation.

All invested stocks are modelled with consideration for cash flows, profit & loss and balance sheet strength to assist in determining individual company valuations and price targets.

Portfolio Construction

Overview

FUND BENCHMARK	S&P/ASX SMALL ORDINARIES ACCUMULATION INDEX
RETURN OBJECTIVE (INTERNAL)	TO OUTPERFORM THE INDEX BY 5% P.A. OVER ROLLING THREE YEAR PERIODS
RISK OBJECTIVE (INTERNAL)	TRACKING ERROR 6-9% P.A.
PORTFOLIO DECISIONS	CO PORTFOLIO MANAGERS
STOCK SELECTION	BOTTOM UP
TOP-DOWN INFLUENCE	INPUT ONLY
TYPICAL NUMBER OF HOLDINGS	50-70
MARKET CAPITALISATION BIAS	SMALL-CAPS
EXPECTED PORTFOLIO TURNOVER	40-60%
OBSERVED ACTIVE SHARE	>75%
% OF PORTFOLIO IN TOP 10 HOLDINGS	43.8% (JULY 2021)

Pengana Emerging Companies Fund

Portfolio construction is conducted jointly by Black and Prendergast with the objective to build a highly diversified portfolio of 'best ideas'. Stock weights are primarily driven by the upside to assessed valuation as well as a Qualitative Scoring Matrix ('QSM'). The QSM accounts for qualitative inputs which are difficult to incorporate within the valuation model. In building the final portfolio, the co-portfolio manager's will use their best judgement in considering both the valuation output and recommended QSM weight for each stock. Other considerations at this stage include ensuring an appropriate level of diversification within the final portfolio, maintaining stock and total portfolio liquidity and overall risk management.

Accountability for the portfolio lies equally with both Black and Prendergast. Individual attribution analysis is not undertaken for each of the Portfolio Manager's in-part due to the collaborative portfolio construction process and veto rights each has on any position. All decisions involving more than a 0.5% weight change in a stock in the portfolio must be agreed upon between the two of them.

Stocks are typically included in the portfolio based on a three-year view. Sell decisions are driven by positions either reaching their target price, a change in fundamental view of the stock or relatively more attractive companies being available. Pengana will not sell down a position singularly based on falling share prices, but such price changes may provoke reassessment of the company's fundamentals which may result in the position being subsequently removed.

Risk Management

Risk limits

SEPARATE RISK MONITORING TEAM	YES
MAX. OF PORTFOLIO IN ANY ONE STOCK	INDEX +7%
MAX. OF PORTFOLIO IN ANY ONE SECTOR	20%
MAX. OF ISSUED CAPITAL OF ANY ONE STOCK	10%
MAX. CASH LIMIT	10%
MINIMUM MARKET CAPITALISATION	$25M

There are broad upfront portfolio limits in place around individual stocks and sectors. While not targeted, the Fund will also typically demonstrate a Tracking Error of 6-9% over time which is largely in-line with peers. Unlike some peers, cash cannot exceed 10% of net asset value and the Fund is likely to be mostly fully invested over time.

Risk monitoring

Given the focus on valuation and the exclusion of higher risk companies (such as biotechs and resources), risk management is part of the research and stock selection process. Portfolio risks are managed at the portfolio construction stage via a series of risk limits.

The Fund's custodian, BNP Paribas, provides weekly exception reporting, which acts as a separate compliance resource.

In addition, the Manager uses the Bloomberg PORT and MAS tools to monitor factors such as cross-correlation between stocks, tracking error and marginal risk contribution at the individual security and portfolio level on a monthly basis. Also the Manager has implemented FactSet, giving the team full attribution capabilities at the stock, sector and portfolio levels, as well as a suite of risk-factor analytical tools.

Risks

An investment in the Fund carries a number of standard investment risks associated with investment markets. These include performance, liquidity, counterparty, market and tax risks. These and other risks are outlined in the PDS and should be read in full and understood by potential investors. Lonsec considers the following to be the major risks:

Equity market

Investments in equity markets are subject to numerous factors which may have an impact on the performance of an investment (both positive and negative). Unexpected changes in economic, technological, structural, regulatory or political conditions can have an impact on the returns of all investments within a particular market.

Derivatives

The Manager has scope to implement various derivative strategies with the objective of mitigating equity market risks. Lonsec notes that derivatives have never been used to-date and will generally be restricted to using futures as a method of investing residual cash balances. Derivatives cannot be used to leverage the Fund.

Pengana Emerging Companies Fund

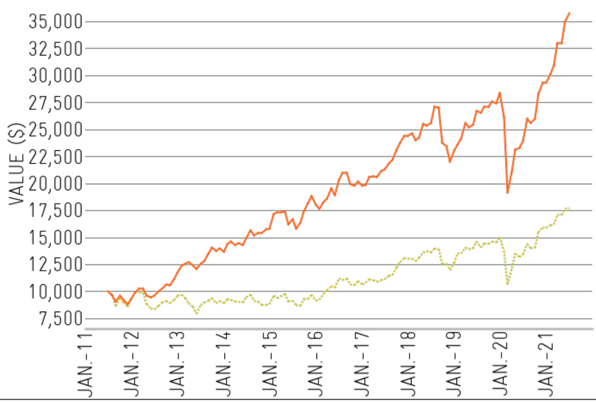
Quantitative Performance Analysis - annualised after-fee % returns (at 31-7-2021)

Performance metrics

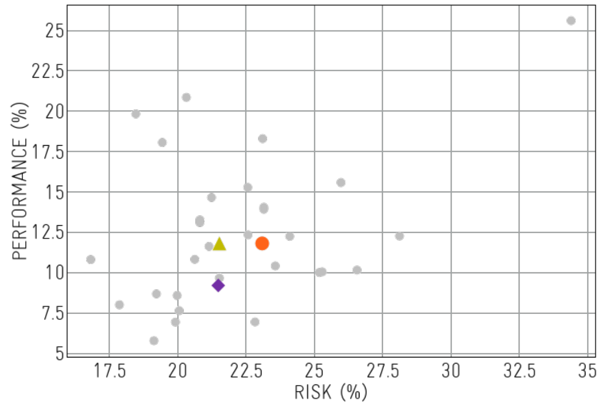
	1 YR		3 YR		5 YR		10 YR	
	FUND	PEER MEDIAN	FUND	PEER MEDIAN	FUND	PEER MEDIAN	FUND	PEER MEDIAN
PERFORMANCE (% PA)	49.39	37.70	11.82	11.82	11.96	11.56	13.60	10.72
STANDARD DEVIATION (% PA)	12.01	11.67	23.09	21.52	18.49	17.60	16.00	16.04
EXCESS RETURN (% PA)	17.09	5.40	2.60	2.60	2.39	1.99	7.68	4.80
OUTPERFORMANCE RATIO (% PA)	83.33	58.33	58.33	58.33	55.00	55.00	59.17	57.50
WORST DRAWDOWN (%)	-1.65	-1.88	-32.58	-30.12	-32.58	-30.12	-32.58	-29.80
TIME TO RECOVERY (MTHS)	2	2	9	8	9	8	9	8
SHARPE RATIO	4.11	3.18	0.47	0.48	0.58	0.54	0.72	0.56
INFORMATION RATIO	4.51	0.98	0.38	0.38	0.39	0.29	1.06	0.76
TRACKING ERROR (% PA)	3.79	6.12	6.83	6.55	6.20	6.28	7.25	7.10

PRODUCT: PENGANA EMERGING COMPANIES FUND
LONSEC PEER GROUP: AUSTRALIAN EQUITIES - AUSTRALIAN SMALLER COMPANIES - SMALL CAP
PRODUCT BENCHMARK: S&P/ASX SMALL ORDINARIES TR INDEX AUD
CASH BENCHMARK: BLOOMBERG AUSBOND BANK BILL INDEX AUD
TIME TO RECOVERY: NR - NOT RECOVERED, DASH - NO DRAWDOWN DURING PERIOD

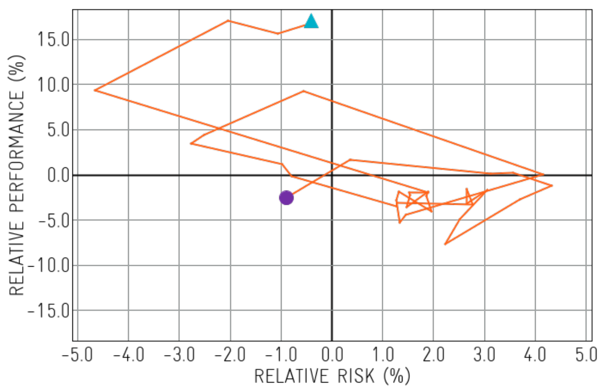
Growth of $10,000 over 10 years



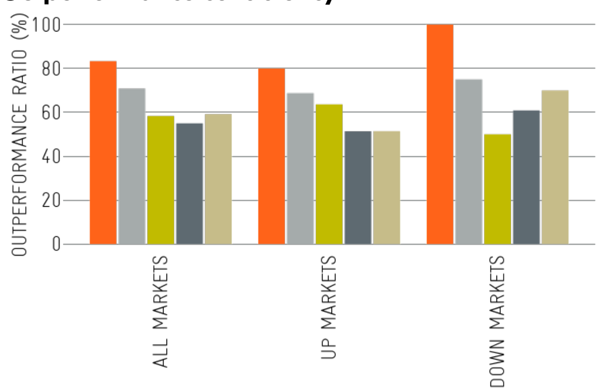
Risk-return chart over three years



Snail trail



Outperformance consistency



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ANALYST: ROBBIE LEW | APPROVED BY: BALRAJ SOKHI

Pengana Emerging Companies Fund

Glossary

Total return 'Top line' actual return, after fees

Excess return Return in excess of the benchmark return

Standard deviation Volatility of monthly Absolute Returns

Tracking error Volatility of monthly Excess Returns against the benchmark (the Standard Deviation of monthly Excess Returns)

Sharpe ratio Absolute reward for absolute risk taken (outperformance of the risk free return (Bank Bills) / Standard Deviation)

Information ratio Relative reward for relative risk taken (Excess Returns / Tracking Error)

Worst drawdown The worst cumulative loss ('peak to trough') experienced over the period assessed

Time to recovery The number of months taken to recover the Worst Drawdown

Snail Trail A trailing 12-month relative performance and relative risk measurement over the benchmark. The trail is generated using a 12-month rolling window over the specified period

About Lonsec

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