

Product Review

Pengana Global Small Companies Fund

ISSUE DATE 22-03-2023

About this Review

ASSET CLASS REVIEWED	GLOBAL EQUITIES
SECTOR REVIEWED	GLOBAL SMALLER COMPANIES
SUB SECTOR REVIEWED	FUNDAMENTAL
TOTAL FUNDS RATED	11

About this Fund

ASIC RG240 CLASSIFIED	NO
FUND REVIEWED	PENGANA GLOBAL SMALL COMPANIES FUND
APIR CODE	PCL0022AU
PDS OBJECTIVE	TO OBTAIN RETURNS GREATER THAN THE MSCI ALL COUNTRY WORLD INDEX SMID CAP UNHEDGED IN AUSTRALIAN DOLLARS OVER ROLLING THREE YEAR PERIODS AFTER FEES.
INTERNAL OBJECTIVE	TO OUTPERFORM THE BENCHMARK BY 3% P.A. (AFTER FEES) OVER ROLLING THREE-YEAR PERIODS.
STATED RISK OBJECTIVE	TO AVOID CAPITAL DRAWDOWNS.
DISTRIBUTION FREQUENCY	SEMI-ANNUALLY
FUND SIZE	\$159M (FEB. 2023)
FUND INCEPTION	01-04-2015
ANNUAL FEES AND COSTS (PDS)	1.18% P.A.
PERFORMANCE FEE	20.5% (OF ANY RETURN GREATER THAN THE INDEX AFTER MANAGEMENT FEE)
RESPONSIBLE ENTITY	PENGANA CAPITAL LIMITED

About the Fund Manager

FUND MANAGER	LIZARD INVESTORS LLC
OWNERSHIP	INVESTMENT TEAM (96.5%), LEAH ZELL (3.5%)
ASSETS MANAGED IN THIS SECTOR	AS\$438M (FEB. 2023)
YEARS MANAGING THIS ASSET CLASS	7

Investment Team

PORTFOLIO MANAGER	JONATHAN MOOG
INVESTMENT TEAM SIZE	4
INVESTMENT TEAM TURNOVER	LOW - MODERATE
STRUCTURE / LOCATION	GENERALIST / CHICAGO

Investment process

STYLE	VALUE / QUALITY
MARKET CAPITALISATION BIAS	SMALL - MID
BENCHMARK	MSCI AC WORLD SMID CAP INDEX AUD
TYPICAL NUMBER OF STOCKS	30 - 80
STOCK LIMITS	MAXIMUM 10%
SECTOR / INDUSTRY LIMITS	MAXIMUM 35%
COUNTRY / REGION LIMITS	MAXIMUM 55% (US) / 25% (COUNTRIES EX-US)
CURRENCY EXPOSURE	ACTIVE HEDGING PERMITTED

Fund rating history

MARCH 2023	INVESTMENT GRADE
MAY 2022	INVESTMENT GRADE
APRIL 2021	RECOMMENDED

What this Rating means

The 'Investment Grade' rating indicates that Lonsec has conviction the financial product can generate risk adjusted returns in line with relevant objectives. However, if applicable, Lonsec believes the financial product has fewer competitive advantages than its peers.

Strengths

- Co-portfolio managers Jonathan Moog and David Li are experienced global small cap investors with significant co-tenure at the firm.
- The Manager has a well-developed investment philosophy and process with strong buy-in from senior members of the team.
- The investment team now owns a large majority equity stake in the Manager, substantially increasing investor-alignment.

Weaknesses

- High key person risk in Moog and Li given their experience and the integral role they play in the process.
- The investment team of four is considered small, relative to most peers. Additionally, North American coverage is considered to be under-developed given the size of the US market.
- The Fund has a significant underweight to the US. This underweight introduces significant country exposure risk which can be a material driver of relative returns and can outweigh the Fund's bottom-up, stock-specific returns.

Fund Risk Characteristics

	LOW	MODERATE	HIGH
BUSINESS SUSTAINABILITY RISK			●
CAPITAL VOLATILITY			●
FOREIGN CURRENCY EXPOSURE			●
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						●	

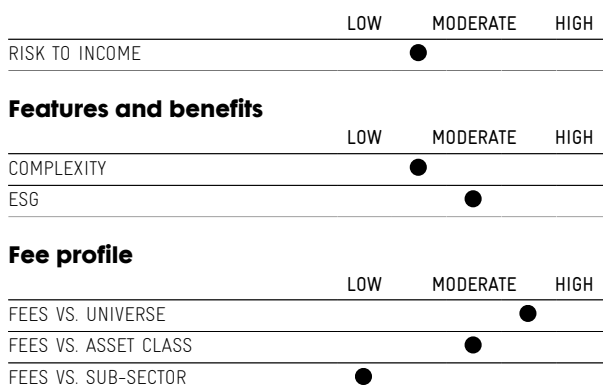
A Standard Risk Measure score of 6 equates to a Risk Label of 'High' and an estimated number of negative annual returns over any 20 year period of 4 to less than 6. This is a measure of expected frequency (not magnitude) of capital losses, calculated in accordance with ASFA/FSC guidelines.

We strongly recommend that potential investors read the product disclosure statement Lonsec Research Pty Ltd ABN 11 151 658 561 • AFSL No. 421 445 • This information must be read in conjunction with the warning, disclaimer, and disclosure at the end of this document. This report supersedes all prior reports.

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

What is this Fund?

- The Pengana Global Small Companies Fund ('the Fund') is an actively managed, long only global equities product that focuses on small and mid-cap companies, targeting a median portfolio market capitalisation of less than US\$3bn. The strategy is value-biased and seeks quality businesses that can create significant value at compelling prices by applying bottom-up, fundamental analysis. The Fund aims to outperform the MSCI All Country World Index SMID Cap unhedged in Australian dollars ('the Benchmark') by 3% over rolling three year periods after fees.
- Pengana Capital Limited ('Pengana'), as Responsible Entity, has appointed Lizard Investors LLC ('Lizard' or 'the Manager') as the underlying investment manager of the Fund.
- The Manager seeks to invest in a range of companies identified as having distinct competitive advantages within their sectors. Further, it aims to invest when these companies are considered a value opportunity due to limited available research, corporate actions, unfavourable investor perception or other special circumstances. The Fund is expected to have a consistent value style bias and has had a long term structural underweight to the US.
- The portfolio is constructed with no regard to a benchmark and is considered to be moderately concentrated, with the Fund holding between 30-80 stocks (typically 50). Stocks are typically held for the longer term and portfolio turnover is expected to be 20-50% p.a. Lonsec notes, however, that turnover over the past two years has been elevated and closer to 50-70% p.a.
- The Fund's returns are likely to vary significantly from the benchmark, with 12 month ex-post tracking error ranging between 4% and 8%. Cash may at times be up to 20% of the portfolio; however, typically the Fund will be fully invested with cash below 5%.
- The Fund may have exposure to derivatives where the Manager seeks to opportunistically hedge currency or to gain economic exposure in a more efficient manner. Derivatives are expected to be used sparingly.
- The Fund's PDS dated 15 September 2022 disclosed Annual Fees and Costs ('AFC') totalling 1.18% p.a. This value comprises (1) Management Fees and Costs of 1.1% p.a., (2) A Performance Fee of 0.012% p.a. and

(3) Net Transaction Costs of 0.07%. In line with RG97, some fees and costs have been estimated by the issuer on a reasonable basis. Actual fees and costs may vary to these estimates.

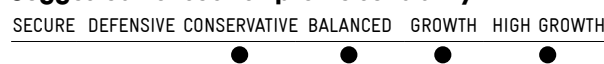
- The Fund charges a performance fee of 20.5% on net outperformance of the Benchmark calculated and accrued daily in the unit price and paid monthly in arrears by the Fund. This fee is subject to a high watermark which cannot be reset by the issuer.
- The Fund charges buy/sell spreads set at 0.30%/0.30%. These spreads can be subject to change, most notably during periods of market volatility and can be sourced from the Manager's website.

Using this Fund

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

- Lonsec notes that the Manager has produced a Target Market Determination ('TMD'), which forms part of the Responsible Entity's Design and Distribution Obligations ('DDO') for the Fund. Lonsec has collected the TMD that has been provided by the Manager and notes that this should be referred to for further details on the Target Market Summary, Description of Target Market and Review Triggers.
- The Fund provides investors exposure to global equity stock markets (small-and-mid cap companies) through a bottom up, value style driven process. Accordingly the Fund may experience both positive and negative, at times sharp, movements in the value of capital invested. Notably, small-and-mid cap companies, due to their nature, tend to be less liquid and more volatile than their large-cap peers. Lonsec recommends a minimum investment timeframe of five-to-seven years. The Fund should be used within the growth component of a diversified portfolio.
- Lonsec believes smaller companies' products should be used to complement, rather than replace, large-cap global equity exposures. Investors should be mindful of the relative risk of small-to-mid cap products and limit allocation to the sector accordingly.
- The Fund is managed in a moderately concentrated manner, employing a 'value' style. The Manager is expected to build a portfolio that may vary from the Benchmark (e.g. concentration and/or sector or regional exposures). Lonsec considers the Fund suitable for blending with other global equity strategies including large caps, style-biased, long/short or absolute return products.

Suggested Lonsec risk profile suitability



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.

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Changes Since Previous Lonsec Review

- In February 2023, major shareholders, Pengana Capital Group and Leah Zell sold the majority of their equity in the Manager to the investment team via a management buyout transaction, with Zell retaining a minority stake. Pengana remains the product issuer and Responsible Entity for the Fund.
- Lonsec has not been advised of any changes to the investment process since the previous review.

Lonsec Opinion of this Fund

People and resources

- As Founder and Chairperson, Leah Zell provides oversight to the firm as she has stepped away from investing. Lonsec considers Zell to be very experienced in the global small caps investing industry and is well-placed to provide strategic direction to the firm.
- The Fund is managed by CIO and Portfolio Manager Jonathon Moog, with support from Head of Research and Portfolio Manager David Li. Moog is responsible for portfolio construction decisions, and Moog and Li are the drivers of idea generation at the firm. Moog is viewed by Lonsec as the guardian of the investment process – setting the agenda for the weekly investment meetings and managing the analyst team. Lonsec considers Moog and Li to be experienced investment professionals, having partnered with Zell at Lizard since 2008. Lonsec views the long co-tenure of the three senior members as a strength of the offering.
- The team operates as generalists, although Lonsec notes complementary investment backgrounds among the individual team members. Between the two, Li and Moog have a level of experience in US equities, a range of industry-specific and country-specific knowledge. The blend of experience is regarded as important for this broad-based global strategy. Collectively, Moog, Li and the Research Analysts are responsible for primary research and stock coverage.
- Lonsec notes, the investment team has been operating as a team of four since 2021 with analyst recruitment being an ongoing effort since. Lonsec considers the slow recruitment process to be a weakness given the team's experience continues to be heavily skewed to Moog and Li. The team's workload is also considered by Lonsec to be heavy and concentrated in Moog and Li, with support provided from Research Analysts Tam Phan and Michael Ryan. Analyst resourcing levels will continue to be a focus in future reviews.
- The team is centrally located in Chicago, which Lonsec considers positive for the firm's culture and communication. The Manager has also highlighted the benefits of the location for company meetings, with a significant number of small-cap companies travelling through the city each week. Pleasingly, the Manager has noted good access to companies despite their modest levels of FUM.
- Lonsec considers key person risk to be high with the senior members given the small size of the team and individual's regional and industry skills. From an investment team and process point of view, key person risk lies with Moog and Li given the final portfolio decisions are made by Moog, with Li being

integral to idea generation. From a broader business perspective, key person risk lies with Zell who has long and deep relationships with the firm's investors. Although Zell is not involved in the day to day of the investment process, Lonsec considers that Lizard's business would be compromised if Zell were to depart, given she is synonymous with the firm.

- In terms of alignment, the recent management buy-out of Lizard Investors has transferred the majority of its equity to the investment team. Zell as the founder and original owner of the firm retains a minor 3.5% equity stake. Given that Moog, Li and the investment team now have substantial (96.5%) equity ownership, this has materially increased their alignment to longer-term business and performance outcomes. Lonsec believes this new ownership structure can help mitigate the risk of departures and help attract/retain talented staff going forward. Lonsec believes this is a net positive development for investors in the Fund.
- The team's remuneration comprises a base salary and discretionary bonus that is tied to the performance of the Fund and business. Lonsec considers the overall alignment of interests between senior team members and end investors to be strong. However, Lonsec believes there is scope for improvement by incorporating a component of deferred remuneration and co-investments into the Fund for the team.
- Pengana Capital as the product issuer and Responsible Entity, has demonstrated a good business relationship with Lizard and has a successful track record of creating long term partnerships with investment teams. Pengana Capital will continue to support and market the Fund in Australia, however will cease to market the Fund in North America. Lonsec will continue to monitor these developments and further operational changes in future reviews.

Research and portfolio construction

- Lonsec believes the Manager has a robust philosophy that revolves around identifying high-quality businesses, where the team believes it has a clear understanding of the source of their competitive advantage and investing in these businesses when they are out-of-favour or overlooked. Overall, Lonsec views the Manager's philosophy positively and believes it is well-entrenched among senior members of the team.
- Lonsec is mindful that the Manager was founded as a non-US-only investor with a long-short mandate. That said, the Manager has indicated the global strategy underpinning this Fund is part of a single process applied across the two strategies of the firm. Lonsec observes that there has been a large benchmark relative underweight to the US (24.7% vs 56.7%, Oct. 2022), with this underweight consistent over time. The Manager notes that the US underweight is based on valuation and while Lonsec notes that this has been beneficial in the context of the team's resourcing and workflow, there is a risk that relative performance will be largely driven by country exposures as opposed to stock-specific factors.
- Furthermore, Lonsec notes there has been no dedicated analyst for US market coverage since

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2021, although the region has shared coverage by Moog and Li. Lonsec views this as weighing on conviction given the large weight of the US market in the Fund's investment universe. Lonsec understands, the Manager has increased its US coverage since the last review, albeit Lonsec still considers it to be under-developed.

- The Fund has a flexible mandate and is permitted to invest in some mid-cap stocks. Lonsec highlights that this is different to most SMID peers who have market cap limits on individual stocks at purchase. Lonsec views the purchase of mid-cap stocks to be outside the realm of the Fund's small cap mandate, however, is sympathetic to the logic and acknowledges the Fund's median market capitalisation has remained between US\$2bn and US\$5bn through time which is consistent with the Managers target of less than US \$3bn. Lonsec will continue to monitor the Manager's market cap discipline in future reviews.
- Lonsec considers the Manager's research and due diligence on companies to be disciplined and sufficiently detailed. The Manager's long term focus allows the team to be patient with investment ideas. Lonsec also believes the Manager is pragmatic about the number of opportunities it covers. The firm has strict investment criteria that an opportunity must meet relating to its business model, balance sheet, management, corporate governance and valuation before it is a potential buy. Lonsec is mindful that having a long holding period may lead to a soft sell discipline by providing companies further opportunities to perform following an earnings downgrade. Lonsec is of the view that a strong sell discipline is an important driver of outperformance.
- Ongoing research discussions ensure the team's research efforts are focused on appropriate investment ideas. At any point in time, the team is conducting due diligence on an active pipeline of 15 companies and actively maintaining a watchlist of around 300-400 stocks. The senior members of Moog and Li determine which companies are selected for further research. Internally-derived research consumes a significant part of the team's efforts, with external experts used at times to gain further insight into different industries or regions. Despite the small team, the Manager uses its finite analyst time efficiently with a focus on where value can best be added. While having a positive view on such a targeted approach, Lonsec considers additional resourcing could provide additional breadth to the process.
- A quantitative model, including scenario modelling of base and bear cases, and qualitative review of a company forms the basis for the team's formal recommendation. The Manager has a 'devil's advocate' element to the process in an effort to challenge the investment thesis of new and existing stocks. Lonsec views this element positively, particularly given the Manager's longer holding period than many small cap peers. Lonsec also considers this element of the process to promote greater scrutiny, while creating greater ownership of the portfolio among the team.
- Lonsec notes that portfolio construction is the responsibility of Moog who monitors top-down risks and macroeconomic issues, which he discusses

with other team members, while Li focuses on idea generation. The Fund is typically managed in a moderately concentrated fashion, that Lonsec considers to be reflective of the Manager's high conviction investment philosophy. Lonsec views the level of conviction within the Fund positively and as a key point of difference from many peers. Lonsec also has a favourable view of the Fund having a single point of accountability in Moog.

- In terms of sell discipline, the Manager will sell a stock when it reaches its target valuation or the investment thesis becomes invalidated. Lonsec has previously noted concerns with the Managers sell discipline, however, since then the Manager has implemented the 'devil's advocate' element with ongoing efforts to challenge the investment thesis of longer term stock holdings. Pleasingly, Lonsec has observed early signs of improvements in the Manager's sell discipline and also notes increased portfolio turnover which over the 12 months to June 2022 ranged between 70% and 47%. Lonsec will continue to test the Manager's sell discipline in future reviews.

ESG integration

- Lonsec's ESG integration assessment considers how rigorous, robust and structured the ESG process for the Fund is as well as how well it integrates into the overall investment process and the Manager's overall policy and reporting framework. The assessment is not intended to assess the underlying holdings of the Fund's portfolio or the Manager's adherence to any form of impact, green / sustainable or ethical standards.
- At the corporate level Lonsec views the Manager's overall ESG policy framework and disclosure as significantly lagging peers. The Manager has indicated a commitment to integrating ESG within their investment process to Lonsec, however, there little evidence in their public positioning. While the Manager has a responsible investing policy in place, the policy is only available on the distributor's website. The policy provides details on the Manager's engagement approach but remains rather generic compared to peers. No reporting on engagement outcomes is publicly available. The Manager does not provide any details on their proxy voting policy or voting outcomes.
- The Manager has indicated that their Responsible Investment style is "ESG Integration" and as such that they take Environmental, Social and Governance factors into consideration when assessing investment opportunities. With a primary ESG style of "Risk or Value" Managers will determine inclusion based on the balance of overall risk (including ESG risk) and potential return. As a result this approach may mean that lower quality ESG companies may be included if the return potential is sufficient and this may conflict with some clients perception of what a strong ESG process would deliver.
- Within the management of this specific Fund Lonsec notes:
 - While the Manager is sourcing data from an external ESG data provider it is less comprehensive than some peers. While data collection is systematised, storage is less robust than peers.

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- While the Manager has demonstrated a clear ESG component within their overall stock research platform, supporting frameworks and systems are weaker than in leading managers. While research is undertaken in a structured manner it provides less measurable outputs than in some leading managers. Research storage and calibration is not as strong as in leading managers.
- Transparency on the transmission from research to portfolio construction is more opaque. The Manager has indicated that the primary transmission is based on the research providing qualitative information to portfolio managers.
- While some ESG rules drive exclusions or position caps, there is no clear use of portfolio level measurement of ESG characteristics apparent. There are no Portfolio level ESG based limits or targets in place for the Fund.
- Engagement is a clear component of the Manager's approach which is prioritised in a structured manner. Engagements are tracked however in a less robust manner than in many peers. The Manager could improve its measurement of the success of those engagements, both positive and negative.
- There is no evidence that ESG factors form any component of the Manager's compliance framework and overall transparency to investors is light. Pleasingly voting on the Fund is directed by the Fund's portfolio manager directly.

Risk management

- The Fund is constructed with no regard to the Benchmark and has only broad absolute limits. Tracking Error is not targeted and risk is predominantly managed in an absolute sense during the bottom-up stock analysis. Ultimately, the Manager seeks to construct a portfolio that comprises 30-80 investment ideas. Furthermore, top-down risks, including industry, regional and currency risks, are assessed as they affect each individual stock. Relative risk at whole of portfolio level, is an outcome of the bottom up process and may position the Fund to have meaningful regional or factor biases as a result.
- The Manager is not reliant on quantitative systems to monitor the biases or relative risks in the overall portfolio. The implementation of the investment management and portfolio administration system Integrata has, however, allowed for greater risk monitoring and analysis. Lonsec considers risk management constraints to be appropriate given the philosophy of the Fund. Furthermore, the Manager monitors the liquidity profile of the portfolio, which Lonsec considers important for small cap portfolios.
- Additionally, Pengana's risk management team, which is led by CIO Nick Griffiths, prepares a monthly risk report for the Fund. This includes risk contributions, liquidity risk analysis, style exposure analysis, stress testing and trading activity. Pengana discusses the risk report with Moog at least on a bi-monthly basis. Lonsec is pleased risk reporting is conducted separate to the investment team.

Fees

- Lonsec considers the total fee load for the Fund (AFC of 1.18% p.a.) to be low for the capability on

offer, relative to its peer group. However, this is due to performance fees not being a large contributor to the overall fee load to-date. Moreover, Lonsec considers the fee reduction in April 2022, as a positive development for investors.

Product

- The Fund is a long-only diversified global equity strategy. Lonsec does not consider it to be operationally challenging to implement given the Manager's track record. Additionally, the Manager employs reputable service providers. However, Lonsec notes that the Fund uses a related party Responsible Entity ('RE') which may lead to conflicts which need to be managed. Lonsec notes this RE relationship has been stable since the inception of the Fund and there have been no issues. The buy/sell spread is 0.30%/0.30% and as net transaction costs disclosed under RG97 reporting regime are 0.07%, the buy/sell spreads are appropriate.

Capacity management

- Outside of this Pengana product, the Manager has flagged it had no further plans to distribute the capability and has indicated a capacity limit of US \$500m. As the Fund's size was A\$159m (Feb. 2023), Lonsec has no immediate capacity concerns.

Performance

Investors should note that the Fund uses the MSCI AC World SMID Cap Index AUD as its benchmark, while the following commentary and Quantitative Performance Analysis at the back of this report refer to the MSCI World Small Cap NR Index AUD. All figures are net of fees to January 2023.

- The Fund has not met its investment objective based on the MSCI World Small Cap NR Index AUD (the 'Index'). Over the three years, the Fund returned 2.5% p.a. underperforming the Index by 2.8% p.a. and trailing the peer median of 4.0% p.a. Over one year, the Fund's return was -7.3% to underperform the Index by 3.3% although outperforming the peer median of -9.9%.
- The Fund's performance relative to its own benchmark has also been weaker. Over the three years to January 2023, the Fund underperformed its benchmark by 2.4% p.a. Over the one year, the Fund underperform its benchmark by 2.1%.
- Lonsec notes the Fund's weaker relative performance over recent years have been impacted by the Manager's value investment style over a period which favoured growth-style investing. Additionally, performance was impacted by the Fund's underweight to the US market where the Manager has determined there to be a lack of appropriate value opportunities.

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Overall

- Lonsec has maintained the Fund's rating at **'Investment Grade'** following its recent review. Lonsec believes the Manager exhibits a robust investment philosophy and process, led by co-Portfolio Managers Jonathan Moog and David Li who are experienced global small cap investors. However, the Manager's commitment to adequate coverage of the core US small cap segment of its investment universe is less clear, with the US being a significant benchmark weight and large potential source of ideas. The US has also been a large source of weak relative performance for the Fund. Further, Lonsec is mindful of the limited analyst support for the portfolio managers.
- That said, the investment team now have majority equity ownership which has materially increased their alignment to longer-term business and performance outcomes.

People and Resources

Corporate overview

Pengana Capital Limited, as Responsible Entity, has appointed Lizard Investors LLC ('Lizard') as the underlying investment manager of the Fund.

Lizard is an investment manager specialising in value-oriented international small and mid-cap companies. The firm was founded by Leah Zell in 2008 and is headquartered in Chicago, USA. As at February 2023, Lizard had A\$438m in FUM.

Pengana is an Australian diversified funds management group. Founded in 2003 and headquartered in Sydney, Pengana manages over \$3.0bn (Feb. 2023) across a range of Australian and International strategies. Pengana is owned by its directors and staff, with Washington H. Soul Pattinson and Co Limited holding a minority stake.

In February 2023, Pengana and Zell has sold the majority of their equity interest in Lizard to the investment team, with Zell holding a 3.5% minority stake. Pengana continues to distribute the Fund in Australia.

Size and experience

NAME	POSITION	EXPERIENCE INDUSTRY / FIRM
JONATHAN MOOG	CIO / PORTFOLIO MANAGER	21 / 13
DAVID LI	HEAD OF RESEARCH / PORTFOLIO MANAGER	19 / 13
MICHAEL RYAN	RESEARCH ANALYST	9 / 7
TAM PHAN	RESEARCH ANALYST	12 / 5

The team comprises four investment professionals, with two Portfolio Managers (including one as Head of Research) and two Research Analysts.

The firm is led by Founder and Chairperson Leah Zell. Zell has significant experience investing in small and mid-cap companies with a speciality for international stocks, albeit she is no longer involved in the day-to-day management of the strategy and her role is dedicated to the strategic management of the firm. Prior to establishing Lizard in 2008, Zell built her reputation at Wanger Asset Management between 1992-2005, where she served as Head of the International Equities Team,

Lead Portfolio Manager of the Acorn International Fund and Portfolio Manager of the Wanger European Smaller Companies Fund. Zell was a Global Equity Analyst at Harris Associates between 1984-1992, and began her career at Lehman Brothers in 1979.

The Fund is managed by CIO and Portfolio Manager Jonathan Moog. Moog joined in 2008 shortly after Lizard was founded. Moog has over 20 years of investment experience across several firms including as Senior Research Analyst at Brightpoint Capital, Private Equity Consultant at Investor Group Services, and Equity Research Associate at Loomis Sayles. Moog's experience has been predominantly related to research on US companies, specifically within the business services, restaurants, retail, media and industrials sectors.

Head of Research and Portfolio Manager David Li joined when Lizard was founded. Zell met Li in 2008 when he was working at Amici Capital, a Long/Short Equities manager. Li has circa 20 years of investment experience primarily researching US companies, as well as those based in China, Korea and Taiwan. Li previously specialised in the technology, media and telecommunications (TMT), industrials, and business services sectors.

Team structure

The team are considered generalists by stock and sector coverage. At the senior level, the team has some industry and geographical expertise, and coverage is split by areas of competency. Research Analysts support the senior members and assist with fundamental research, including analysing financial statements and modelling. The Portfolio Managers and Research Analysts are responsible for primary research including company meetings, while Zell does not have any specific stock responsibilities.

Remuneration

The team receive a salary and bonus that is closely tied to the performance of the Fund. Further, the investment team collectively own 96.5% of the Lizard Investors business, with Zell owning 3.5%.

Research Approach

Overview

RESEARCH PHILOSOPHY	FUNDAMENTAL, BOTTOM-UP
TARGET COMPANY	QUALITY BUSINESSES THAT ARE MISPRICED, OVERLOOKED AND OUT-OF-FAVOUR
MINIMUM MARKET CAPITALISATION	NO MINIMUM - TARGET MEDIAN PORTFOLIO MARKET CAP OF LESS THAN US\$3BN
NUMBER OF STOCKS IN MANAGER'S UNIVERSE	50,000
NUMBER OF STOCKS FULLY MODELLED/RESEARCHED	100 - 125
RESEARCH INPUTS	COMPANY REPORTS AND STATEMENTS; MEETINGS WITH MANAGEMENT, CUSTOMERS, SUPPLIERS, COMPETITORS AND INDUSTRY EXPERTS
BROKER RESEARCH	MINOR CONSIDERATION
VALUATION OVERVIEW	FREE CASH FLOW MULTIPLE, PRICE/EARNINGS, EV/EBIT, EV/EBITDA

Universe filtering

The investment universe of small and mid-cap companies comprises around 50,000 stocks. The universe is initially filtered using five criteria – sustainable business model, strong balance sheet, disciplined management, strong corporate governance and compelling valuation. The filtered universe is

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compiled by the three senior members in a qualitative manner using the criteria, which forms a watchlist of around 300-400 stocks that the team considers warrant further research.

Additionally, investment ideas may come from price dislocations created by short term or misunderstood situations. This process is led by Li, however, any member of the team can contribute to idea generation. Potential opportunities are directed by senior members based on experience and resourcing.

Research process

The majority of the team's effort is devoted to company research. Research includes analysing financial statements (balance sheets and cash flow) and meeting with management, as well as customers, suppliers, competitors and industry experts. The team assesses a company's investment thesis, downside protection, track record of management, business ownership, and its key drivers and risks. External sources are used at times such as industry or regional-specific consultants. The Manager may also consider sell-side research for contrarian signals. The team spends around 25% of their time travelling, which is organised around specific company meetings. Notably, many meetings are also conducted in the US as companies travel through the Manager's Chicago office.

Valuation

The Manager's valuation approach is based on a company's long term cash flow generation, and must have the potential to generate 20% annualised returns over a three to five-year timeframe. Valuation is predominately based on a company's free cash flow, however, other metrics such as price/earnings and EBITDA are also considered. Standardised models are used and presented to the team, including historical and future performance under multiple scenarios.

Portfolio Construction

Overview

FUND BENCHMARK	MSCI AC WORLD SMID CAP INDEX AUD
EMERGING MARKETS PERMITTED	YES
INTERNAL RETURN OBJECTIVE	TO OUTPERFORM THE BENCHMARK BY 3% P.A. (AFTER FEES) OVER ROLLING THREE-YEAR PERIODS
INTERNAL RISK OBJECTIVE	TO AVOID CAPITAL DRAWDOWNS
PORTFOLIO MANAGEMENT APPROACH	BENCHMARK AGNOSTIC
INVESTMENT STYLE	VALUE / QUALITY
PORTFOLIO DECISION MAKING	CO-PORTFOLIO MANAGERS (UNANIMOUS CONSENT NOT REQUIRED)
STOCK SELECTION	BOTTOM-UP
TOP-DOWN INFLUENCE	MINOR CONSIDERATION
MARKET CAPITALISATION BIAS	SMALL - MID
TYPICAL NUMBER OF HOLDINGS	30 - 80
EXPECTED PORTFOLIO TURNOVER	20 - 50% P.A.
OBSERVED ACTIVE SHARE	C. 97%
PORTFOLIO EXPOSURE IN TOP 10 HOLDINGS	37.2% (JAN. 2023)

Decision making

Moog has ultimate responsibility for decision making for the final portfolio. The Fund is constructed in a concentrated, high conviction manner, with position sizes ranging between 1.5-5% and a maximum stock

weight of 10%. Position sizes are based on the team's conviction in the stock, its perceived risk and liquidity.

Buy and sell drivers

A stock is a buy candidate if it meets the Manager's stock selection criteria and its valuation is perceived to be compelling.

A stock will be sold if it reaches its target valuation or the investment thesis becomes invalidated. Where a company continues to exhibit price control or monopolistic qualities, and the team believes it can continue to compound in value, fair value is less important and the Manager may continue holding the stock.

Risk Management

Risk limits

SEPARATE INVESTMENT RISK MONITORING	YES
STOCK LIMITS	MAXIMUM 10%
SECTOR / INDUSTRY LIMITS	MAXIMUM 35%
COUNTRY / REGION LIMITS	MAXIMUM 55% (US) / 25% (COUNTRIES EX-US)
CASH LIMIT	MAXIMUM 20%

The Fund is managed in a benchmark agnostic manner. Broad absolute limits apply on individual stocks, sector and country exposures, and cash holdings.

Risk monitoring

The Manager's investment management and portfolio administration system Integrata allows for real-time risk factor analysis and reporting. The system also allows for stress testing and scenario analysis, and provides profit and loss monitoring of the portfolio.

Separately, investment risk monitoring is conducted by Pengana, which is managed after the fact and not a pre-trade check.

Currency management

The Manager has the ability to use exchange-traded derivatives to opportunistically hedge the portfolio's currency exposure. However, the Manager has advised currency hedging will be used sparingly.

Risks

An investment in the Fund carries a number of standard investment risks associated with domestic and international investment markets. These include economic, political, legal, tax and regulatory risks. These and other risks are outlined in the PDS and should be read in full and understood by investors. Lonsec considers major risks to be:

Currency risk

The Fund invests predominantly in assets that are denominated in non-AUD currencies. A rise in the relative value of the AUD with respect to the currencies in which the assets are denominated will negatively impact the market value of the assets (and vice versa) from an Australian investor's perspective.

Market risk

Companies with a smaller market capitalisation generally have greater market risk (i.e. beta). Accordingly, investors should be mindful of the

ANALYST: LEON KHOO | APPROVED BY: MATTHEW FREEMAN

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potential for sharper movements in market price of these investments.

Liquidity risk

In some cases, global equities may present low liquidity in particular regions relative to deep markets such as the U.S. Small caps may display low liquidity due to lower volume and fewer market participants relative to large caps.

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Quantitative Performance Analysis - annualised after-fee % returns (at 31-1-2023)

Performance metrics

	1 YR		3 YR		5 YR		7 YR	
	FUND	PEER MEDIAN	FUND	PEER MEDIAN	FUND	PEER MEDIAN	FUND	PEER MEDIAN
PERFORMANCE (% PA)	-7.25	-9.93	2.45	3.98	3.65	-	8.08	-
STANDARD DEVIATION (% PA)	15.98	17.31	17.59	17.37	15.32	-	13.77	-
EXCESS RETURN (% PA)	-3.26	-5.57	-2.76	-0.94	-3.88	-	-1.92	-
OUTPERFORMANCE RATIO (% PA)	33.33	33.33	41.67	44.44	45.00	-	46.43	-
WORST DRAWDOWN (%)	-19.25	-20.15	-29.04	-27.44	-29.04	-	-29.04	-
TIME TO RECOVERY (MTHS)	NR	NR	NR	NR	NR	-	NR	-
SHARPE RATIO	-0.55	-0.62	0.10	0.19	0.17	-	0.49	-
INFORMATION RATIO	-0.34	-0.85	-0.35	-0.11	-0.49	-	-0.26	-
TRACKING ERROR (% PA)	9.46	7.00	8.00	8.00	7.85	-	7.46	-

PRODUCT: PENGANA GLOBAL SMALL COMPANIES FUND

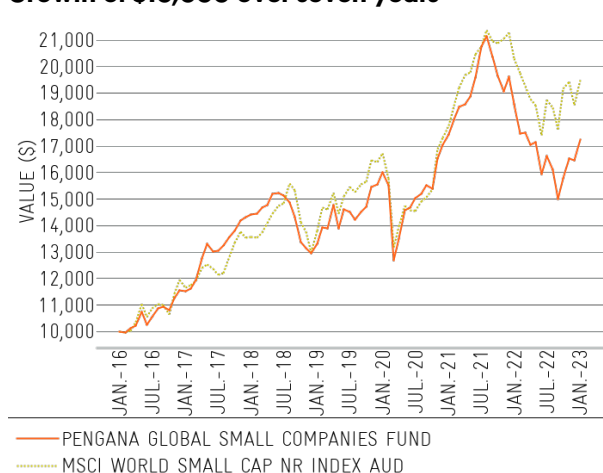
LONSEC PEER GROUP: GLOBAL EQUITIES - GLOBAL SMALLER COMPANIES - FUNDAMENTAL

PRODUCT BENCHMARK: MSCI WORLD SMALL CAP NR INDEX AUD

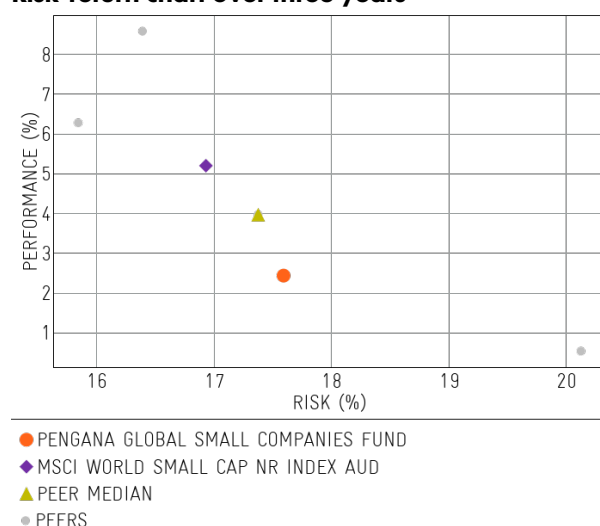
CASH BENCHMARK: BLOOMBERG AUSBOND BANK BILL INDEX AUD

TIME TO RECOVERY: NR - NOT RECOVERED, DASH - NO DRAWDOWN DURING PERIOD

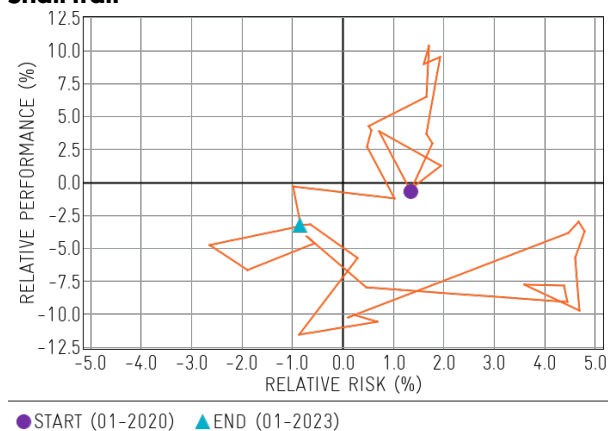
Growth of \$10,000 over seven years



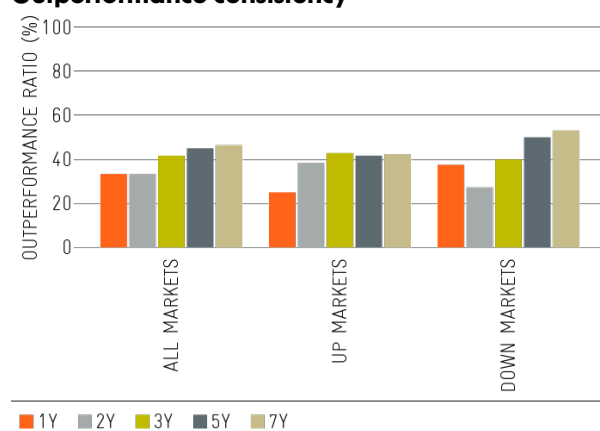
Risk-return chart over three years



Snail trail



Outperformance consistency



Pengana Global Small 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

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