



Product Review

Pengana Global Small Companies Fund

ISSUE DATE 03-05-2022

About this Review

ASSET CLASS REVIEWED	GLOBAL EQUITIES
SECTOR REVIEWED	GLOBAL SMALLER COMPANIES
SUB SECTOR REVIEWED	FUNDAMENTAL
TOTAL FUNDS RATED	10

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	\$176M (FEBRUARY 2022)
FUND INCEPTION	01-04-2015
MANAGEMENT COSTS	1.1% 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	PENGANA CAPITAL GROUP (67%), LEAH ZELL (33%)
ASSETS MANAGED IN THIS SECTOR	AS\$521M (FEBRUARY 2022)
YEARS MANAGING THIS ASSET CLASS	6

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

MAY 2022	INVESTMENT GRADE
APRIL 2021	RECOMMENDED
FEBRUARY 2020	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

- Leah Zell, founder of the firm, is a well-credentialed global small cap investor albeit she is no longer involved in the day-to-day management of the strategy.
- 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.

Weaknesses

- High key person risk in Zell with regard to business sustainability and leadership, albeit this has reduced since Pengana's acquisition of the business.
- High key person risk in both Moog and Li given their experience and the integral role they play in the process. KPR is exacerbated by the absence of a deferred remuneration component.
- Senior members of the team have limited analyst support due to the small team size. Additionally, North American coverage is constrained following an analyst departure in early 2021, adding to the work load of Moog and Li.
- The Fund has a significant underweight to the US which has led to persistent under-performance of its benchmark. Such an underweight exposes the Fund to significant country risk relative to benchmark which may be a material driver of relative returns and outweigh idiosyncratic drivers of return derived from the Fund's bottom up process.
- The Fund has a high absolute fee load, albeit mostly in-line with similar peers.

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.

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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.

	LOW	MODERATE	HIGH
RISK TO INCOME		●	

Features and benefits

	LOW	MODERATE	HIGH
COMPLEXITY		●	
ESG	●		

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 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-oriented 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 'Index') 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 mildly concentrated, with the Fund holding between 30-80 stocks (49 at February 2022). 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 18 months has been elevated and closer to 60-80% 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.
- As per the PDS dated 1 April 2022, the fee disclosure for the Fund consists of a management fee of 1.10% p.a. plus an additional estimated performance fee of 0.055% p.a. Lonsec notes that in accordance with the Manager's interpretation of RG97, the performance fee has been disclosed for illustrative purposes only and the PDS acknowledges that the actual performance fee may be above or below this level. The performance fee is calculated as 20.5% of excess return relative to MSCI AC World SMID Cap Index AUD after management fees. Lonsec notes these fees are higher than peers albeit notes the small cap focus and associated capacity constraints.
- During the financial year ended 30 June 2021, the net transaction costs for the Fund were estimated at 0.365%. 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. The Fund's buy/sell spread is +0.30%/-0.30% (0.60% round-trip). These costs are reflected in the unit price of the Fund and are borne by investors, but they are not paid to the Responsible Entity or the Manager. Please refer to the Fund's PDS for further details.

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 mildly concentrated manner, employing a 'value' style and should be

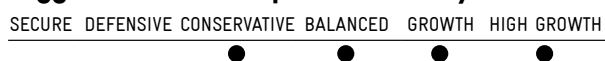
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used within the growth component of an investor's balanced portfolio. The Manager is expected to build a portfolio that may vary from the benchmark (e.g. concentration and/or sector or regional exposures). Lonsec considers the Fund suitable for blending 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.

Changes Since Previous Lonsec Review

- Lonsec has not been advised of any changes to the investment process since the previous review.
- The Fund reduced the base management fee to 1.10% p.a. effective from 1 April 2022.

Lonsec Opinion of this Fund

People and resources

- As Founder and Chairperson, Leah Zell oversees the general direction of the firm. Lonsec believes Zell is well-qualified to lead the firm now that she has stepped away from investing. She has significant small companies experience and now also has additional support from Pengana.
- 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. For instance, while Zell has covered small caps globally, she made her name managing international strategies and prior to the launch of the Fund, the team was primarily focused on international small companies. On the other hand, Li and Moog bring greater prior experience in US equities, and industry-specific knowledge. The blend of experience is regarded as important for this broad-based global strategy. Lonsec notes that Zell has no formal stock coverage. This leaves Moog, Li and the Research Analysts responsible for primary research.
- While the Manager has made efforts to expand the analyst team, this remains an ongoing process following the departure of a Senior Analyst (Kevin McQuarrie) in February 2021, who is still yet to be replaced. 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 the Research Analysts Tam Phan and Michael Ryan. The analytical support for the senior members will continue to be a focus of 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 moderate 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 vulnerable if Zell were to depart for any reason, given she is synonymous with the firm.
- In terms of alignment, Zell is the Founder and original owner of the firm and, pleasingly under the revised ownership structure, has retained 33% equity ownership in the firm. Moog and Li both have a profit sharing arrangement, which provides reasonable ties to business and performance outcomes. While this is designed to help mitigate the risk of departures, Lonsec notes that there is no deferred remuneration component for either of Moog or Li. Additionally, the current REM structure is considered by Lonsec to not strengthen alignment as much as the senior investors' prior equity ownership in the firm.
- Remuneration comprises a base salary and discretionary bonus that is tied to the performance of the Fund and business. Lonsec considers the alignment of interests between senior members and end investors to be good but scope for improvement including co-investment and a component of deferred remuneration.
- It remains early to assess the impact of Pengana's acquisition on Lizard, which occurred in January 2020. To date, the two firms have demonstrated a good business relationship. Furthermore, Pengana has a successful track record of creating long term partnerships with investment teams and is also committed to providing Lizard with working capital to grow the firm. Lonsec will continue to monitor for any impact 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.

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- Lonsec is mindful that the Manager was founded as a non-US only investor and, notably, with a flexible long/short approach. The global strategy underpinning this Fund was initially incubated internally (since terminated) and outside of this Pengana product, the Manager has no further plans to distribute the capability. Nonetheless, Lonsec notes the Fund has garnered a healthy level of assets since its launch, which has helped cement the capability. The Manager maintains that it is not an asset gatherer and is seeking to benefit its clients by capping its funds under management at appropriate levels, which Lonsec views positively from a capacity management stand-point.
 - The Manager has highlighted only a single process is applied at the firm. Lonsec has noted that the investment process to date has resulted in a high degree of commonality between the two strategies, with the global strategy maintaining a moderate exposure to North America at the time of this review, by way of a 10.3% allocation to Canada (+7.5% relative to benchmark) and a large benchmark relative underweight to the US (11.5% vs 51.9%), 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 tilts as opposed to stock specific factors.
 - Furthermore, given the ongoing recruitment process since the last departure of a senior analyst in early 2021, adequate analyst coverage for the US market is constrained, albeit currently covered by Moog and Li. While noting recent improvements in the performance of the Fund's North America exposure, Lonsec believes uncertainty exists around the Manager's commitment to the US region, weighing on conviction given the large representation of the US market in the Fund's investment universe.
 - 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 and who only hold mid-cap stocks that have gained this status via price appreciation. 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 median portfolio 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 mildly 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 March 2022 was 63%. Lonsec will continue to test the Manager's sell discipline in future reviews.
- ESG integration**
- The Manager has indicated a commitment to ESG to Lonsec, however there is no evidence in their public positioning. There is a limited policy framework to support the ESG approach. Overall Lonsec views the strength of this commitment to be significantly behind peers in this sector.
 - The Manager does not provide any details on their proxy voting policy or voting outcomes. This

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contrasts with industry norms. The Manager does not provide any details on engagement policy or engagement outcomes. There is little evidence of ESG integration within the research elements of the investment process when benchmarked to industry peers. Some elements of ESG are visible within the valuation processes with light integration within the portfolio monitoring process. Overall ESG integration within the investment process is extremely light when compared to peers.

- The lead PM demonstrates strong engagement on a broad range of ESG issues and the Manager can demonstrate clear ESG based engagement outcomes. While the manager is sourcing data for reporting purposes there is no observable approach to the structured use of ESG data within their investment process. On a peer relative basis, Lonsec considers the overall level of ESG integration within this Fund to be Low.

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 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.

Capacity management

- The strategy's FUM has increased to A\$176m (as at February 2022) since last review, which included net inflows of A\$40m. The Manager has estimated capacity for the strategy of US\$500m. Lonsec believes the strategy has significant room to grow before capacity becomes a limiting factor to performance for this historically relatively low turnover strategy, noting increased turnover of late. At present, Lonsec does not have any 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.

- The Fund has not met its investment objective based on the MSCI World Small Cap NR Index AUD (the 'Benchmark'). Over the three years to February 2022, the Fund returned 7.8% p.a. (after fees), underperforming the Benchmark by 2.6% p.a. Over the one year to February 2022, the Fund's return was -3.0% to underperform the Benchmark by 9.8% (after fees).
- The Fund's performance based on its own benchmark has also been disappointing. Over the three years to February 2022, the Fund returned 7.8% p.a. (after fees), underperforming the benchmark by 2.8% p.a. Over the one year to February 2022, the Fund's return was -3.0% to underperform the benchmark by 12.4% (after fees).
- Lonsec notes the Fund's disappointing relative performance over the three-year period to February 2022 was impacted by the Manager's value investment style over a period which favoured growth investing. Additionally, performance was impacted by the Fund's underweight to the stronger performing US market where the Manager has determined there to be a lack of appropriate value opportunities.

Overall

- Lonsec has downgraded the Fund's rating to '**Investment Grade**' following its most recent review. Lonsec believes the Manager exhibits a robust investment philosophy, lead by co-Portfolio Managers Jonathan Moog and David Li who are experienced global small cap investors with high co-tenure at the firm. However, Lonsec is mindful of the limited analyst support they have. Also, 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 region for small cap investing. The US has also been a large source of poor relative performance for the Fund.
- While positive on process changes to address sell discipline post issues experienced in the past, Lonsec notes a material increase in portfolio turnover which will be a focus in future reviews.

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 2022, Lizard had A\$521m in FUM.

Pengana is an Australian diversified funds management group. Founded in 2003 and headquartered in Sydney, Pengana manages over \$3.7bn (as at February 2022) across a range of Australian and International strategies. Pengana is owned by its directors and staff, with

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Washington H. Soul Pattinson and Co Limited holding a minority stake.

Pengana has a 67% equity ownership in Lizard, with Zell owning the remaining 33% equity.

Size and experience

NAME	POSITION	EXPERIENCE INDUSTRY / FIRM
LEAH ZELL	FOUNDER / CHAIRPERSON	41 / 11
JONATHAN MOOG	CIO / PORTFOLIO MANAGER	20 / 11
DAVID LI	HEAD OF RESEARCH / PORTFOLIO MANAGER	18 / 11
MICHAEL RYAN	RESEARCH ANALYST	7 / 5
TAM PHAN	RESEARCH ANALYST	10 / 3

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 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 17 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 coverage. At the senior level, the team has some industry and geographical expertise, and coverage is split by areas of competency. Research Analysts supports the senior members and assist with data work, including analysing financial statements and some 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.

Moog and Li, as senior members of the team share 50.1% of the profits derived from the global small-caps strategies managed.

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 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

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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	96.75% (FEBRUARY 2022)
PORTFOLIO EXPOSURE IN TOP 10 HOLDINGS	37.15% (FEBRUARY 2022)

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 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.

ANALYST: MATTHEW FREEMAN | APPROVED BY: PETER GREEN

Pengana Global Small Companies Fund

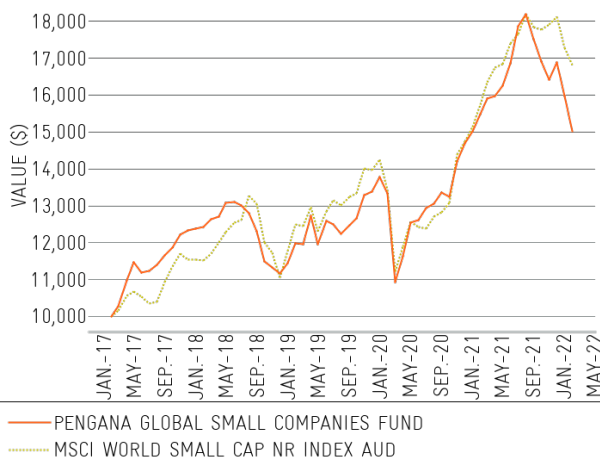
Quantitative Performance Analysis - annualised after-fee % returns (at 28-2-2022)

Performance metrics

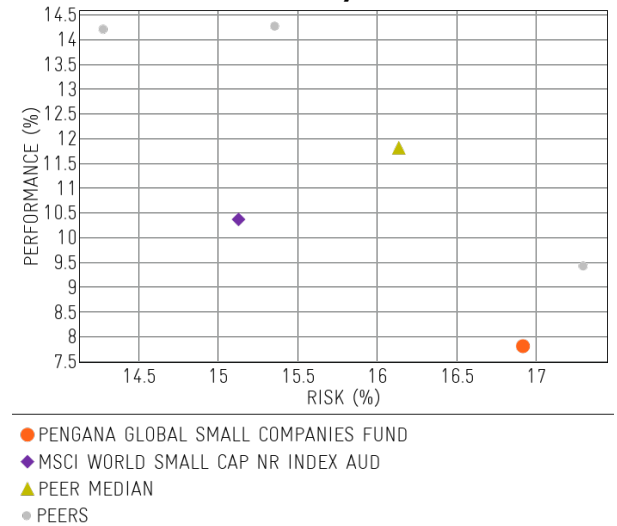
	1 YR		2 YR		3 YR		5 YR	
	FUND	PEER MEDIAN	FUND	PEER MEDIAN	FUND	PEER MEDIAN	FUND	PEER MEDIAN
PERFORMANCE (% PA)	-2.98	4.58	6.10	11.49	7.81	11.82	8.48	-
STANDARD DEVIATION (% PA)	13.64	15.66	18.90	17.98	16.92	16.14	14.44	-
EXCESS RETURN (% PA)	-9.75	-4.84	-5.78	-0.20	-2.56	1.18	-2.47	-
OUTPERFORMANCE RATIO (% PA)	33.33	50.00	41.67	52.08	47.22	50.00	50.00	-
WORST DRAWDOWN (%)	-17.38	-16.34	-18.09	-17.14	-20.71	-18.52	-20.71	-
TIME TO RECOVERY (MTHS)	NR	NR	6	NR	8	NR	8	-
SHARPE RATIO	-0.22	0.29	0.32	0.63	0.43	0.71	0.51	-
INFORMATION RATIO	-1.18	-0.53	-0.78	-0.03	-0.38	0.13	-0.33	-
TRACKING ERROR (% PA)	8.27	8.59	7.42	8.53	6.80	7.82	7.50	-

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

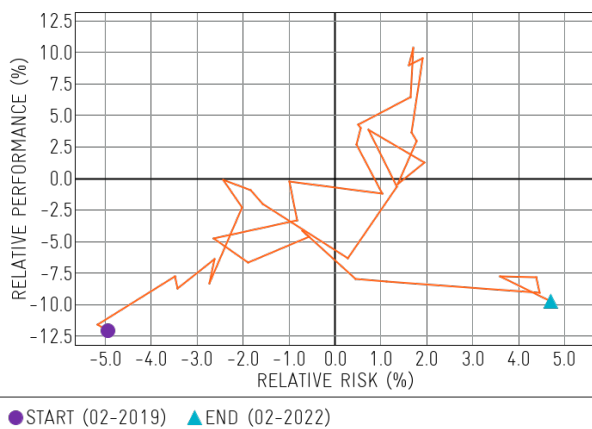
Growth of \$10,000 over five years



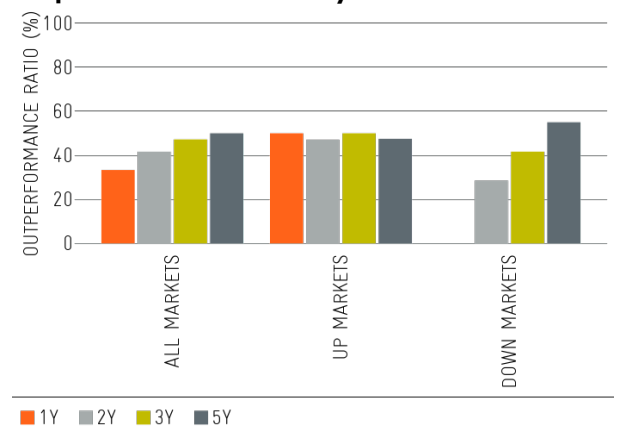
Risk-return chart over three years



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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