



Pengana High Conviction Equities Fund

This report has been prepared for financial advisers only



Superior

August 2021

INTRODUCTION

Key Principles

SQM Research considers (but is not restricted to) the following key review elements within its assessment:

1. Business profile - product strategies and future direction
2. Marketing strategies and capabilities, market access
3. Executive Management / Oversight of the investment management firm
4. Corporate Governance / fund compliance / risk management
5. Investment team and investment process
6. Fund performance, investment style, market conditions, investment market outlook
7. Recent material portfolio changes
8. Investment liquidity
9. Investment risks
10. Fund/Trust fees and expenses

Currency of Reports

This Research Report is current as at the date on the report until it is replaced, updated or withdrawn. SQM Research reports are generally valid for a term of approximately 12 months but may be replaced, withdrawn or changed at any time as judged appropriate by SQM Research.

Star Rating*

Investment products are awarded a star rating out of a possible five stars and placed on the following website:

www.sqmresearch.com.au

Licensed Investment Adviser

SQM Research is licensed as an Australian Financial Services Licensee, Licence No. 421913, pursuant to section 913B of the Corporations Act 2001. The licence authorises SQM Research to carry on a financial services business to provide general financial product advice only.

Privacy Policy

SQM Research collects only a limited amount of personal information from its clients. Our privacy policy can be viewed at www.sqmresearch.com.au. This will enable you to understand your rights, our obligations and what SQM Research does with any information it collects about you.

Fees charged for Report

SQM Research has received a fee from the fund manager for this report and rating.

General Financial Product Advice

This advice will not take into account you, or your clients, objectives, financial situation or needs and will not be provided in respect of any other financial products. Accordingly, it is up to you and your clients to consider whether specific financial products are suitable for your objectives, financial situations or needs.

Report Date: 25 August 2021

Star Rating *	Description	Definition	
4½ stars and above	Outstanding	Highly suitable for inclusion on APLs <i>SQM Research believes the Fund has considerable potential to outperform over the medium-to-long term. Past returns have typically been quite strong. Product disclosure statement (PDS) compliance processes are of a high-calibre. There are no corporate governance concerns. Management is extremely experienced, highly skilled and has access to significant resources.</i>	High Investment grade
4¼ stars	Superior	Suitable for inclusion on most APLs <i>SQM Research considers the Fund has substantial potential to outperform over the medium-to-long term. Past returns have tended to be strong. PDS compliance processes are high-quality. There are no material corporate governance concerns. Management is of a very high calibre.</i>	High Investment grade
4 stars	Superior	Suitable for inclusion on most APLs <i>In SQM Research's view, the Fund has an appreciable potential to outperform over the medium-to-long term. Historical performance has tended to be meaningful. PDS compliance processes are strong. There are very little to no corporate governance concerns. Management is of a high calibre.</i>	High Investment grade
3¾ stars	Favourable	Consider for APL inclusion <i>SQM Research concludes the Fund has a moderate potential to outperform over the medium-to-long term. Past performance has tended to be reasonable. Management is experienced and displays investment-grade quality. There are no corporate governance concerns, or they are of a minor nature.</i>	Approved
3½ stars	Acceptable	Consider for APL inclusion <i>In SQM Research's view, the potential for future outperformance in the medium-to-long term is somewhat uncertain. Historical performance has tended to be modest or patchy. Management is generally experienced and capable. SQM Research has identified weaknesses which need addressing in order to improve confidence in the Manager.</i>	Low Investment grade
3¼ stars	Caution Required	Not suitable for most APLs <i>In SQM Research's opinion, the potential for future outperformance in the medium-to-long term is very uncertain. Historical returns have tended to be disappointing or materially below expectations. PDS compliance processes are potential substandard. There are possible corporate governance concerns. Management quality is not of investment-grade standard.</i>	Unapproved
3 stars	Strong Caution Required	Not suitable for most APLs <i>In SQM Research's opinion, the potential for future outperformance in the medium-to-long term is unlikely. Historical performance has tended to be unacceptable. There may be some material corporate governance concerns. SQM Research has a number of concerns regarding management.</i>	Unapproved
Below 3 stars	Avoid or redeem	Not suitable for most APL inclusion	Unapproved

Event-driven Rating	Definition
Hold	<i>Rating is suspended until SQM Research receives further information. A rating is typically put on hold for a period of two days to four weeks.</i>
Withdrawn	<i>Rating no longer applies. Significant issues have arisen since the last report date. Investors should consider avoiding or redeeming units in the fund.</i>

* The definitions in the table above are not all encompassing and not all individual items mentioned will necessarily be relevant to the rated Fund. Users should read the current rating report for a comprehensive assessment.

CONTENTS

Summary	2
Fund Summary	3
SQM Research's Review & Key Observations	3
Strengths of the Fund	6
Weaknesses of the Fund	7
Other Considerations	7
Key Changes since the Last Review	7
Investment Process & Portfolio Construction	8
Investment Process Diagram	8
Process Description	8
Corporate Governance/Business Strategy	12
Key Counterparties	12
Parent Company	12
Investment Manager / Fund Manager	12
Responsible Entity	12
Management Risk	13
Funds under Management (FUM)	13
Management & People	14
Investment Team	14
Meeting Schedule	14
Staffing Changes	15
Remuneration and Incentives	15
Product Features - Fees, Redemption Policy	16
Management Fee	16
Performance Fee	16
Quantitative Analysis	17
Quantitative Insight	17
Return and Risk	20
Asset Allocation & Risk Parameters	22
Appendix – Staff	25

SQM Rating ★★★★★

Superior. Suitable for inclusion on most APLs.

Fund Description	
Fund Name	Pengana High Conviction Equities Fund
APIR code	HHA0020AU
Asset Class	Global Equities (Small-Mid Caps)
Management and Service Providers	
Fund Manager	Pengana Capital Ltd
Responsible Entity	Pengana Capital Ltd
Custodian	BNP Paribas
Fund Information	
Fund Inception Date	Class A: 11 Dec 2014; and Class B: 15 July 2020
Fund Size	AUD 42 million
Return Objective (as per PDS)	The Fund's investment objective is to deliver returns that exceed the RBA Cash Rate target +3% and to outperform the MSCI World Total Return Index (net, AUD) over the long term
Internal Return Objective	N/A
Risk Level (as per PDS)	Very High
Internal Risk Objective	N/A
Benchmark	MSCI World Total Return Index; RBA Cash Rate target +3%
Number of stocks/positions	Max 20 securities
Fund Leverage	None
Turnover	115% p.a. (3-year average)
Top 10 Holdings Weight	61%
Investor Information	
Minimum Application	\$25,000
Redemption Policy	Daily
Distribution Frequency	Half yearly (June and December)
Investment Horizon (as per PDS)	Seven or more years
Currency Hedging Policy	The Fund's investment manager will not typically hedge currency exposures.
Management Fee	Class A: 1.80% pa of the Class' NAV (including GST net of RITC) Class B: 1.25% pa of the Class' NAV (including GST net of RITC)
ICR - latest	FY 2021 - Class A: 6.42% (incl perf. fee of 4.43%) and Class B 1.98% (incl perf. fee of 0.78%)
Buy Spread	0.25%
Sell Spread	0.25%
Performance Fee Rate	Class A: 15.38% (including GST net of RITC) of the Class return in excess of the Fund's hurdle of the Reserve Bank of Australia's Cash Rate target +3% pa, payable half-yearly Class B: 20% (including GST net of RITC) of the Class return in excess of the Fund's hurdle of the MSCI World Total Return Index (net, AUD), payable half-yearly

SUMMARY

Fund Summary

Description

The **Pengana High Conviction Equities Fund (the "Fund")** is a portfolio that invests in a concentrated portfolio of not more than 20 Australian and Global companies. The Fund invests primarily in listed (or in a very few cases, soon to be listed) global equities, although it may invest in some unlisted securities. The Fund seeks to identify companies that are significantly undervalued using fundamental analysis.

The Fund is a highly flexible, **benchmark unaware, concentrated** strategy, and can be described as having a **growth** style bias, with a strong sectoral and small to mid-cap bias (compared to a vanilla MSCI World strategy). The Fund utilises an ethical negative screening process that removes certain sectors/companies from the investable universe.

Broad asset allocation ranges provide flexibility to respond to changing market conditions and opportunities. The Fund can hold up to 100% cash, or a single stock could make up the majority of the portfolio. Foreign currency exposures are not hedged. The Fund's investment objective is to deliver returns exceeding the RBA Cash Rate target +3% and outperform the MSCI World Total Return Index (net, AUD) over the long term.

The Fund is structured as an open-ended unlisted registered managed investment scheme.

Fund Rating

The Fund has achieved the following rating:

Star Rating	Description	Definition	Investment Grading
4.00 stars	Superior	Suitable for inclusion on most APLs	High Investment grade

SQM Research's Review & Key Observations

1. People and Resources

About the Fund Manager

Pengana Capital Limited (the Fund's Responsible Entity and Manager) was established in **2003** (AFSL 226 566 granted 7 May 2003) and is a wholly-owned subsidiary of Pengana Holdings Pty Ltd, which is a wholly-owned subsidiary of Pengana Capital Group Ltd (PCG). Pengana Capital Group is a Funds Management group specialising in listed and unlisted equities. Their focus is on delivering distinct investment strategies that deliver

superior risk-adjusted returns to investors, focusing on capital preservation. On **1 June 2017**, Pengana merged its business with Hunter Hall International Limited. On completion of the merger, Hunter Hall was renamed Pengana Capital Group Limited (PCG).

Pengana is based in Sydney, Australia, with additional offices in Melbourne, Brisbane and Perth. The directors and staff currently own circa 45% of the business, which is profitable. Pengana manages about A\$4 billion and has about 45 staff members.

Investment Team

The Fund's investment team comprises of **James McDonald** (Portfolio Manager), **Jeremy Bendeich** (Portfolio Manager) and **Veronica Price** (Analyst).

The Portfolio Managers have joint responsibility for the management of the Fund, including research, portfolio management and trading. They act as the back-up to each other and cover for one another in either's absence. The PMs also operate as Analysts in the team. Everyone is a generalist, although each individual may focus on particular areas of expertise in the team.

SQM Research notes that James McDonald and Jeremy Bendeich are contractors (rather than direct Pengana employees). Most PMs of the broader internal Pengana Equities teams are also contractors (rather than direct Pengana employees). They are employed by separate business entities, in which they are Equity holders. These entities receive a share in the profits generated by the relevant division. This is a relatively less common business model for Funds Management firms operating Managed Funds under their own brand name, although, some boutique firms do use a similar type of business model/employment arrangements. That said, the direct ownership interest in the separate business entities & the profit share component of the remuneration (for those Pengana PMs) is a positive for retention & alignment of interests.

Considering the sector, investment process/style, and the team's size, SQM Research is of the opinion that the Key Person risk (in James McDonald) is "medium to high".

2. Investment Philosophy and Process

Investable Universe

The Fund may invest in any Australian or globally listed equities. Equities do not need to be included in the MSCI World index to be eligible for inclusion in the portfolio. Investments are more likely to be in healthcare, industrials and technology sectors and less likely in financials.

The Fund seeks to avoid investing in businesses that are, in Pengana's opinion, currently involved in activities that are unnecessarily harmful to people, animals or the environment. These activities include Alcohol; Adult content; Animal cruelty; Fossil fuels (coal, coal seam gas, oil); Gambling; Human rights abuses and exploitation; Nuclear; Securities from issuers on UN sanctions list, Tobacco; Uranium mining; and Weapons. The Fund utilises an ethical **negative screening** process that removes companies from the investable universe that derive operating revenues from direct and material business involvement in these sectors.

Process / Philosophy / Style

The Fund is a **highly flexible, benchmark unaware, concentrated strategy and can be described as having a growth style bias, as well as a strong sectoral and small to mid-cap bias.**

The Team conducts proprietary fundamental research and financial models on each of its target investments. Stock idea generation relies heavily on the accumulated investment knowledge and experience of the Portfolio Managers. Watch lists are maintained as part of this process. Management meetings and conferences are also essential sources of information.

The team/Fund has a strong bias towards investing in **healthcare, industrials** and **technology** sectors and is less likely in **financials**. The upside for each stock is determined following scrutiny by the team. A Risk Score is calculated for each stock based on specific risk parameters. The most commonly used **valuation** tool (by the team) is free cash flow yield relative to the company's revenue growth rate – a higher growth rate generates a lower free cash flow yield target multiple. Risk-weighted DCFs are used in some cases, such as valuing drug pipelines at pharmaceutical companies. A sum of the parts may be used for more complex structures such as conglomerates. The Portfolio Manager uses an 'Implied Weightings Model' to construct the portfolio, subject to specific risk limits.

The Fund utilises ethical **negative screening** that removes companies from the investable universe (as outlined above). The **ESG** process and inputs: Consideration of ESG issues raised by prospective and existing investments are investigated within the investment research process and discussed at Investment Team meetings as required.

The details of the research/investment process are outlined later in the report.

Risk Management

The team aims to manage risk through diversification – the portfolio comprises 20 stocks maximum with limits on individual stock size, industry exposure and geographic exposure. Risk, including volatility and drawdown, is managed at the individual stock level and the overall portfolio level. No numerical risk target is specifically targeted.

The portfolio is subject to certain limits/guidelines listed at the end of the report.

Monitoring of risk limits is performed daily by a Risk Analyst independent from the portfolio management team. The analyst generates risk reports which are reviewed daily by the CIO or Performance and Risk Manager and monthly by a Risk Committee, which includes the CIO and Head of Operations.

3. Portfolio Characteristics

Portfolio Turnover

The investment process seeks to identify stocks that can be held for the long term, and key holdings do not change frequently. The Fund is fundamentally low turnover; however, trading activity may increase at times due to stock price volatility, leading to valuation driven position management and the tax-aware focus of the Fund.

Recent market volatility has also meant that the historical turnover of the Fund has been elevated above its usual level. *The 3-year average annual portfolio turnover is approximately 115%.*

Liquidity

There are no formal liquidity limits; however, the liquidity of individual positions and the overall portfolio is monitored daily to ensure they are commensurate with the Fund's mandate and objective. A stock's liquidity is part of the 'Risk Score'.

Pengana has advised that 100% of the portfolio can be liquidated in <30 days, assuming a 30% participation rate. *As the portfolio is significantly overweight small-cap stocks (Vs the MSCI World Index), SQM Research believes that the portfolio and certain stocks in the portfolio would have lower liquidity than a regular large-cap/broad-cap Fund.*

Leverage

This Fund does not employ direct leverage (through borrowing by the Fund) **or** economic leverage (through the use of derivatives).

4. Performance & Risk

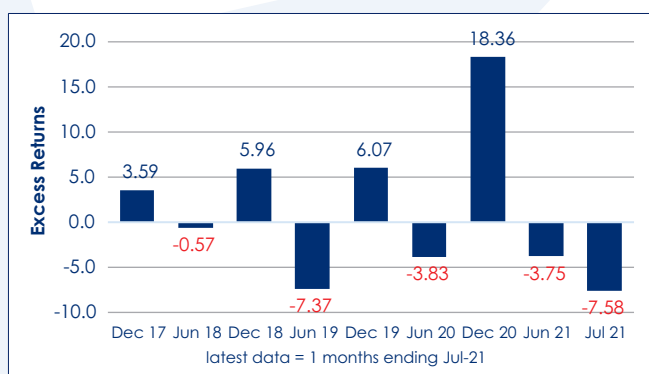
Return Objective

The return objective stated in the PDS is: "The Fund aims to deliver returns that exceed the RBA Cash Rate target +3% and to outperform the MSCI World Total Return Index (net, AUD) over the long term."

As stated in the PDS, the Fund's benchmark is the MSCI World Total Return Index (net, AUD) and RBA Cash Rate target +3%.

Over the **year to July-2021**, the Fund returned 32.95% (after fees) compared to 31.78% for the benchmark. This is an outperformance of 1.17%.

Fund Excess Returns %: Half-yearly (net of fees)



Length of Track Record

The Fund has a history of **6.6** years. Observations and analysis of returns will have a material/significant statistical meaning due to the sample size of observations.

Risk Objective

The Fund's PDS states that the risk level of the Fund is "Very High".

The Fund's **volatility** (standard deviation of monthly returns) over the **year to July-2021** was 16.48% compared to a peer average of 9.28% and 9.33% for the benchmark.

Drawdown Experience

Drawdown Size (peak-to-trough)			
	Fund	Bench	Peers
Average	-7.80%	-4.39%	-7.31%
Number	11	12	9

Drawdowns have, **on average**, been *materially worse* than the benchmark and *marginally worse* than the peer average.

Definition: A drawdown tracks the path of the Fund's accumulated NAV (with dividends reinvested). It is measured over the period of a peak-to-trough decline and the subsequent recovery back to that previous peak level. The total return over that entire period is, of course, zero. The metric of interest, the drawdown itself, is quoted as the percentage change between the peak and the trough over that period. Funds typically have multiple drawdowns of varying size and length over their lifetime. The table above shows how many drawdowns have occurred and their average peak-to-trough size.

5. Other Features

Fees and Costs	Fund (Class A)	Fund (Class B)	Peer Avg
Management Fee (% p.a.)	1.80%	1.25%	1.23%
Expense Recovery (% p.a.)	0.19%	-	-
Performance Fee (%)	15.38%	20%	-
Indirect Cost Ratio ICR (% p.a.)	6.42%	1.98%	1.58%
<i>ICR Date: FY21</i>			
Buy Spread (%)	0.25%	0.25%	0.30%
Sell Spread (%)	0.25%	0.25%	0.30%

Note: 'Class A' units are the original class - Pengana has advised that these are not being promoted to new investors, and therefore the fee charged for the 'Class B' units is more relevant for prospective investors. The 'Class B' units were launched in July 2020.

Management fee

- Expressed as a percentage rate per annum of the Fund's Net Asset Value ("NAV")
- Including GST and the impact of RITC (Reduced Input Tax Credit).

Performance fee:

- For 'Class A' units: 15.38%** of the amount by which the Fund's investment returns (after base management fees have been deducted) exceed the returns of the performance fee Benchmark (**RBA Cash Rate + 3% p.a.**).
- For 'Class B' units: 20%** of the amount by which the Fund's investment returns (after base management fees have been deducted) exceed the returns of the performance fee Benchmark (**MSCI World Total Return Index, net in AUD**).
- Including GST and impact of RITC (Reduced Input Tax Credit)
- The fee is accrued daily and (if applicable) paid to the Manager half-yearly.
- The fee is adjusted for any prior accumulated negative performance fee. Underperformance in a previous performance period must be made up for before a performance fee is payable. This creates a permanent high-water mark.

Governance

Pengana Capital Limited (PCL) is the Responsible Entity (RE) and the Fund Manager of the Fund.

The **Board of Directors of the Responsible Entity (Pengana Capital Limited)** consists of **3** directors, **none** of whom are independent. SQM Research prefers the inclusion of independent members on the Board of Directors – it is a meaningful way to enhance governance and oversight. Board members have an average of **30** years of industry experience.

That said, the **Board of Directors of the Parent (Pengana Capital Group or PCG)** consists of **5** directors, **3** of whom are independent. SQM Research considers that a positive.

The Responsible Entity's **Compliance Committee** is composed of **3** members, **2** of whom are independent. The Chair is independent. The minutes of Compliance Committee meetings are reported in full to the Pengana Capital Group Board. SQM Research views independence in a RE oversight body such as the Compliance Committee as a strong and favourable factor in Fund governance. Compliance Committee members have an average of **35** years of industry experience.

FUM (Funds under Management)

The Fund is approximately \$44.3 million in size as of July-2021.

Fund Performance to 31 July 2021 (% p.a.)							
Total Return	1-Month	3-Month	6-Month	1-Year	3-Year	5-Year	Inception
Fund	-3.62	1.21	4.35	32.95	17.13	10.26	31.78
Benchmark	3.97	10.13	21.32	31.78	14.93	15.06	13.16
Peer Average	2.09	6.64	18.59	43.04	11.91	12.44	9.92
Alpha	-7.58	-8.92	-16.96	1.17	2.21	-4.80	18.62

With dividends reinvested. Returns beyond one year are annualised. Return history starts Jan-2015

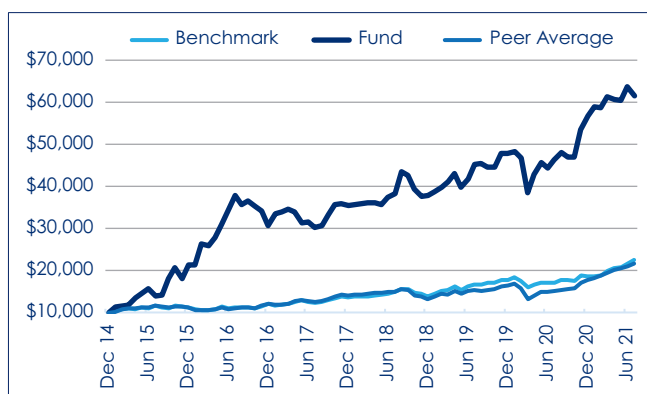
Benchmark: MSCI World NR AUD

Note: The returns data is for the 'Class A' units.

Annual Returns					
Year	Fund	Benchmark	Peer Avg	vs. Bench	vs. Peers
2015	+113.48	+11.50	+11.41	+101.99	+102.07
2016	+43.90	+8.02	+9.38	+35.88	+34.51
2017	+15.17	+13.32	+15.88	+1.85	-0.71
2018	+7.18	+1.42	-6.36	+5.76	+13.54
2019	+26.50	+27.86	+23.62	-1.36	+2.88
2020	+18.34	+5.58	+8.30	+12.75	+10.04
Jul-21	+8.38	+20.80	+21.76	-12.42	-13.38

2021 data = 7 months ending Jul-21

Growth of \$10,000



Strengths of the Fund

- Pengana has built up a long track record of managing money across various Funds, specialising in Australian & International Equities. Pengana manages about \$4 billion in FUM and has about 45 employees.
- The Fund's investment team is highly experienced and knowledgeable. Both PMs - James McDonald and Jeremy Bendeich, have over 20 years of industry experience.
- The investment/research process is robust.

- The Fund has a highly flexible mandate, significantly high Active Share, and a significantly high allocation to non-index stocks. SQM Research is of the opinion that these factors provide the Fund with the additional ability to generate alpha in a more unconstrained manner.
- The Fund has significantly outperformed the benchmark and the peer group, on a since inception basis. A very significant proportion of the total outperformance was achieved within the 1st year i.e. 2015 and to a lesser extent in the 2nd year.
- Unconstrained & Sector biases: The team/Fund has a strong bias towards investing in healthcare, industrials and technology sectors, and is less likely in financials. Being unconstrained means that just as an example, the allocation to healthcare (the Fund's most preferred sector since inception) has averaged 35% since inception, with very significant variations - a low of 8% and high of 63%. Similarly, country allocations can vary significantly between USA, Europe, Australia, and so can allocations to Cash.

Weaknesses of the Fund

- The Fund's Portfolio Management team has not worked together for a long period of time. 1 of the 3 team members is new to the Firm and another joined in January 2020. That said, this is somewhat mitigated by the fact that the Strategy is highly concentrated and is predominantly focused on 3-4 industry sectors. Staff turnover in the broader International Equities team (which did contribute to this Fund, albeit to a limited extent) i.e. the departure of 2 key Pengana PMs and the Analysts (in March 2021) has led to some short-term issues, including FUM outflows for some of the Pengana International Funds (not this Fund).
- The Board of Directors of the Responsible Entity (Pengana Capital Limited or PCL) is not majority independent. SQM Research prefers the inclusion of independent members on the Board of Directors – it is a meaningful way to enhance governance and oversight. That said, the Board of Directors of the Parent (Pengana Capital Group or PCG) is majority independent. SQM Research considers that a positive.
- The Fund is significantly more volatile than the benchmark and the peer group.
- The total fee (ICR) charged for the 'Class A' units is significantly higher than the peer average, predominantly because of the performance fees, and also the higher management fee. Under the fee structure, performance fee is accrued for any returns over Cash+3%, which is a very low hurdle rate for such a Fund (even though a high water mark applies). Pengana has advised that these units are not being actively promoted to investors, and therefore the fee charged for the 'Class B' units is more relevant for prospective investors. The total fee (ICR) charged for the 'Class B' units, whilst higher than the peer average, is comparatively reasonable.
- The Fund is Unhedged and will therefore be impacted by currency movements (either positively or negatively).
- Some of the Key Metrics of the Fund include: The Active Share is significantly high at about 94%; allocation to non-index stocks is significantly high at about 50%; the Beta Vs MSCI World varies significantly (refer to the performance table). *Other metrics including country/sector allocations are listed at the end of the report.*

Key Changes since the Last Review

- This report is an inaugural review.

Other Considerations

- Considering the sector, investment process/style and the size of the team, SQM Research is of the opinion that the Key Person risk (in James McDonald) is "medium to high".
- Being significantly overweight small to mid-cap bias stocks (Vs the MSCI World Index), SQM Research believes that the portfolio and certain stocks in the portfolio would have lower liquidity than a regular large-cap/broad-cap Fund.

Investment Process Diagram

Upside	Risk	Implied weight
<ul style="list-style-type: none"> Discount to intrinsic value Business model Quality/experience of management Identify catalyst for re-rating 	<ul style="list-style-type: none"> Market cap and liquidity Financial risk Cyclicality of earnings Country risk 	<p>Target allocation ranges are determined based on a stocks potential upside versus its risk</p> <p>The portfolio comprises up to 20 stocks with a maximum of 15% in any one holding</p>

Process Description

Universe

Investable Universe The Fund may invest in any Australian or globally listed equities. Equities do not need to be included in the MSCI World index to be eligible for inclusion in the portfolio. Investments are more likely to be in healthcare, industrials and technology sectors, and less likely in financials.

The Fund seeks to avoid investing in businesses that are, in Pengana's opinion, currently involved in activities that are unnecessarily harmful to people, animals or the environment. These activities include:

- Alcohol
- Adult content
- Animal cruelty
- Fossil fuels (coal, coal seam gas, oil)
- Gambling
- Human rights abuses and exploitation
- Nuclear
- Securities from issuers on UN sanctions list
- Tobacco
- Uranium mining
- Weapons

The Fund utilises an ethical **negative screening** process that removes companies from the investable universe that derive operating revenues from direct and material business involvement in these sectors.

Investment Process

Top-down or bottom-up The Fund is primarily focused on bottom-up stock calls however some consideration is given to top-down/macro analysis when selecting investments.

Investment Process

Research and Portfolio Construction Process

Idea Generation

Ideas are generated and assessed through the following means:

- Open mind – good opportunities abound
- Reading – journals, newspapers/websites, broker research, financial documents, industry statistics
- Conferences/company visits/calls – speak with a number of companies weekly and a team conducts at least six trips p.a.
- 13D research – competitors or client/supplier of a current candidate
- Quantitative screens – quality and valuation metrics
- Experience – team's global experience means they avoid time wasting
- Top down – sectors or geographies that are out of favour and have a high probability of mean-reversion

Screening

In addition to the negative screening (mentioned above), the team aims to:

- Avoid companies: which are overleveraged, face structural headwinds, significant controversies etc.
- Seek companies: which are cash generative, have a reasonable valuation, good management, growth, good ESG record and cash balance.

The team believes that screening via financial metrics such as free cash flow yield to market cap, revenue growth, EV/EBITDA, EV/EBIT/ EV/Sales and historical high and low margins can be useful. They are more useful in countries with less coverage such as Japan.

Research & Stock Selection

The Team conducts proprietary fundamental research and financial models on each of its target investments. Stock idea generation relies heavily on the accumulated investment knowledge and experience of the Portfolio Managers. Watch lists are maintained as part of this process. Management meetings and conferences are also very important sources of information.

Key criteria targeted in the research process:

- Strong competitive positions defined by factors such as leading technology, high market share or low cost of production
- Significantly undervalued
- Solid long-term growth prospects
- Out of favour or under-researched companies are preferred over market favourites
- Hidden optionality
- Cash flows are desirable, as are strong balance sheets
- Management with a strong track record.

Investment Process

Research and Portfolio Construction Process

...continued

The team/Fund has a strong bias towards investing in **healthcare, industrials** and **technology** sectors, and is less likely in **financials**.

The ethical screen: Before a company is added to a portfolio, the extent of an investee company's business involvement in screened activities is assessed by the team. The team relies on its own analysis and **Sustainalytics**, an independent provider of ESG and corporate governance research and ratings. The Pengana Capital Group ("PCG") Risk Officer has final veto power on whether a stock meets the screening criteria for inclusion in the portfolio.

The **ESG** process and inputs: Consideration of ESG issues raised by prospective and existing investments are investigated within the investment research process and discussed at Investment Team meetings as required. The ESG assessment forms a part of the research conducted on each stock and is incorporated into the analysts' company research notes. The potential financial impacts of ESG risks/opportunities are considered when determining a company's valuation and may impact the weighting of the investment in the overall portfolio.

The upside for each stock is determined following scrutiny by the Portfolio Managers and analyst

- Discount to intrinsic value
- Business model
- Quality/experience of management
- Identify catalyst for re-rating

A Risk Score is calculated for each stock based on the following risk parameters:

- Market cap and liquidity
- Financial risk
- Cyclicity of earnings
- Country risk

The most commonly used **valuation** tool (by the team) is free cashflow yield relative to the revenue growth rate of the company – a higher growth rate generates a lower free cashflow yield target multiple. Risk-weighted DCFs are used in some cases such as valuing drug pipelines at pharmaceutical companies. A sum of the parts may be used for more complex structures such as conglomerates.

Portfolio Construction

An 'Implied Weightings Model' is used by the Portfolio Manager to construct the portfolio, subject to specific risk limits.

Step 1 – Determine Upside (mentioned above)

Step 2 – Determine Risk (mentioned above)

Step 3 – Determine Implied Weighting

	Low Upside	Medium Upside	High Upside
Low Risk	3-6%	6-10%	10-15%
Medium Risk	1-3%	3-5%	5-8%
High Risk	0%	1-2%	2-4%

Investment Process

Research and Portfolio Construction Process

...continued

Liquidity

There are no formal liquidity limits however the liquidity of individual positions and the overall portfolio are monitored daily to ensure they are commensurate with the Fund's mandate and objective. A stock's liquidity is part of the 'Risk Score'.

Pengana has advised that 100% of the portfolio can be liquidated in <30 days, assuming a 30% participation rate. Being significantly overweight small-cap stocks (Vs the MSCI World Index), **SQM Research believes that the portfolio and certain stocks in the portfolio would have lower liquidity than a regular large-cap/broad-cap Fund.**

Portfolio Turnover

The investment process seeks to identify stocks that can be held for the long term and key holdings do not change frequently. The Fund is therefore fundamentally low turnover, however trading activity may increase at times due to stock price volatility, leading to valuation driven position management, and the tax aware focus of the Fund.

Recent market volatility has also meant that the historical turnover of the Fund has been elevated above its usual level. The 3-year average annual portfolio turnover is approximately **115%**.

Sell Discipline

Factors considered in taking a decision to sell/trim a position include:

- Conviction
- Risk limits (as above)
- Changes to the investment thesis
- Profit taking
- Ability to hold cash

Risk Management

The team aims to manage risk through diversification – the portfolio comprises 20 stocks maximum with limits on individual stock size, industry exposure and geographic exposure. Risk, including volatility and drawdown, is managed at the individual stock level and the overall portfolio level. No numerical risk target is specifically targeted.

The portfolio is subject to certain limits/guidelines, listed at the end of the report.

Monitoring of risk limits is performed daily by a Risk Analyst independent from the portfolio management team. The analyst generates risk reports which are reviewed daily by the CIO or Performance and Risk Manager and monthly by a Risk Committee which includes the CIO and Head of Operations.

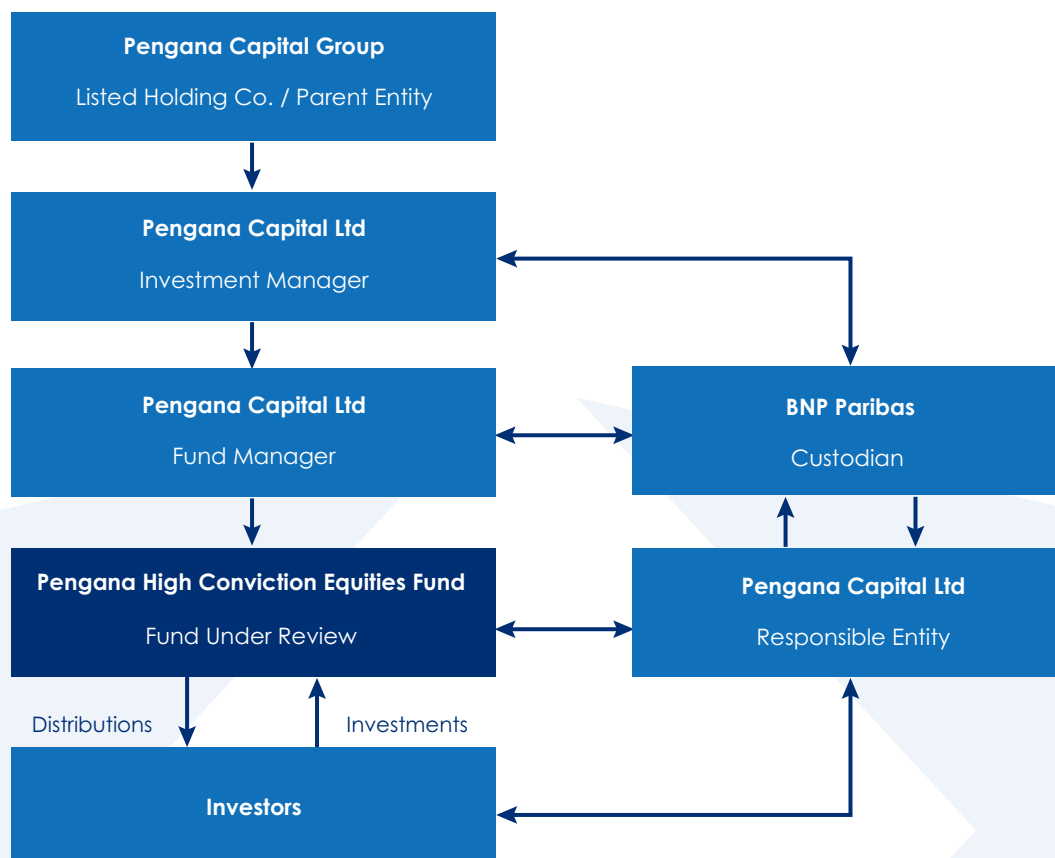
The daily risk reports monitor the following: Mandate limits; Exposures; Position size; Liquidity; Daily trading activity; and Derivatives (if applicable). Operational risks are monitored independently by the operational team. Counterparty risks are monitored weekly by the independent risk management team.

Hedging & Derivatives

Currency risk is not hedged.

Derivatives are not used in the portfolio. However, the Fund is able to use them, if required.

Key Counterparties



Parent Company

Pengana Capital Group Limited is a Funds Management group specialising in listed and unlisted equities. Their focus is on delivering distinct investment strategies that deliver superior risk-adjusted returns to investors, with a focus on capital preservation. On 1 June 2017, Pengana merged its business with Hunter Hall International Limited. On completion of the merger, Hunter Hall was renamed Pengana Capital Group Limited (PCG).

Pengana Capital Limited (the Fund's Responsible Entity and Manager) was established in 2003 (AFSL 226 566 granted 7 May 2003) and is a wholly-owned subsidiary of Pengana Holdings Pty Ltd, which is a wholly-owned subsidiary of Pengana Capital Group Ltd (PCG). Pengana is based in Sydney, Australia, with additional offices in Melbourne, Brisbane and Perth. The directors and staff currently own circa 45% of the business, which is profitable. Pengana manages about A\$4 billion and has about 45 staff members.

Investment Manager / Fund Manager

As above.

Responsible Entity

Pengana Capital Limited (PCL) is the Responsible Entity (RE) and the Fund Manager of the Fund.

The **Board of Directors of the Responsible Entity (Pengana Capital Limited)** consists of **3** directors, **none** of whom are independent. SQM Research prefers the inclusion of independent members on the Board of Directors – it is a meaningful way to enhance governance and oversight. Board members have an average of **30** years of industry experience.

That said, the **Board of Directors of the Parent (Pengana Capital Group or PCG)** consists of **5** directors, **3** of whom are independent. SQM Research considers that a positive.

The Responsible Entity's **Compliance Committee** is composed of **3** members, **2** of whom are independent. The Chair **is** independent. The minutes of Compliance Committee meetings are reported in full to the Pengana Capital Group Board. SQM Research views independence in a RE oversight body such as the Compliance Committee as a strong and favourable factor in Fund governance. Compliance Committee members have an average of **35** years of industry experience.

Management Risk

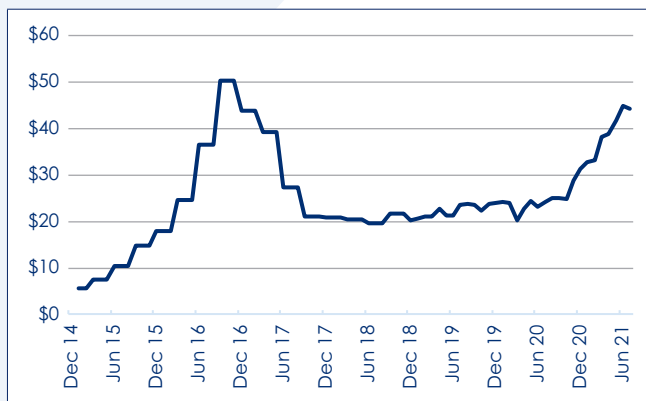
Funds management businesses rely on the operational capabilities of key counterparties. A critical element is the ability of the Responsible Entity to monitor operational performance and to meet the regulatory and statutory responsibilities required. For any investment fund, there is a risk that a weak financial position or management performance deterioration of key counterparties could temporarily or permanently compromise their performance and competency. This can adversely affect financial or regulatory outcomes for the Fund or associated entities.

Based on the materials reviewed, SQM Research believes that Pengana Capital and the associated key counterparties are appropriately qualified to carry out their assigned responsibilities. Management risk is rated as 'low/modest'.

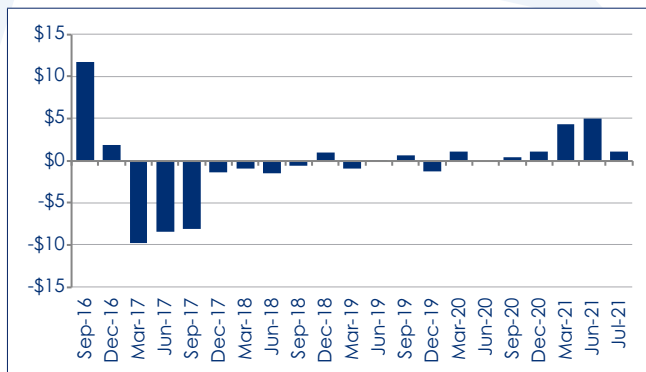
Funds under Management (FUM)

The Fund is approximately \$44.3 million in size, as of July-2021.

FUM for Fund under Review (\$mill)



Quarterly Net Flows (\$million)



Distributions

Distributions occur on a **semi-annual** basis, subject to the availability of distributable income. As a general rule, in a scenario where the Fund's realised losses and expenses exceed income in a distribution period, the Fund may elect not to make a distribution during that time.

Distribution Date	Distribution CPU	Unit price * \$	Distribution %
Jun-16	42.53	\$3.303	12.88
Dec-16	5.00	\$2.820	1.77
Jun-17	50.74	\$2.661	19.06
Jun-18	62.64	\$2.570	24.37
Jun-19	14.35	\$2.185	6.57
Jun-20	7.50	\$2.251	3.33
Jun-21	15.44	\$3.022	5.11

* Unit Prices shown are the monthly average of daily unit prices

A General Note on Distributions for Managed Funds

The Responsible Entity of a Managed Fund will provide for a regular schedule of distributions, such as monthly/quarterly/semi-annual or annual. This is subject to the Fund having sufficient distributable income. The official total distributable income available to pay to investors is determined for the period of that Fund's financial year. By distributing the net taxable income of the Fund to investors each year, a Fund itself should not be liable for tax on its net earnings.

If a Fund makes distributions more frequently than once over the financial year, those distributions will be based on estimates of the distributable income for that distribution period. The final total amount of distributable income available for passing on to investors can only be calculated after the close of the financial year, based on the Funds taxable income for that year.

If the total distribution a Fund pays out exceeds total taxable income for that particular financial year, the excess amount may be treated as a return of capital rather than income. This will possibly have tax implications for the investor.

Due to the considerations outlined above, there may be periods in which no distributions are made, or a Fund may make additional distributions

A Fund's ability to distribute income is determined by the performance of the Fund and general market conditions. Accordingly, there is no guarantee a Fund will make a distribution in any distribution period.

Name	Responsibility / Position	Location	Years at Firm	Years in Industry
James McDonald	Portfolio Manager & CIO	Sydney	18.0	24.0
Jeremy Bendeich	Portfolio Manager	Sydney	0.0	27.5
Veronica Price	Equity Analyst	Sydney	1.5	3.5
Average			7	18

Investment Team

The investment team comprises of **James McDonald** (Portfolio Manager), **Jeremy Bendeich** (Portfolio Manager) and **Veronica Price** (Analyst). The Portfolio Managers have joint responsibility for the management of the Fund, including research, portfolio management and trading. They act as the back-up to each other, and cover for one another in either's absence. Everyone is a generalist, although each individual may focus on particular areas of expertise in the team.

The PMs also operate as Analysts in the team. The workload includes:

- Modelling
- Thematic Research (ex-modelling) – includes: conduct company and thematic research and present their findings to the team; Ethical & ESG issues related to the company; reading financial statements and conference call transcripts; organising and participating in company calls.
- Short projects – one or two days on ideas to work out if they should spend more time on the company

- Longer projects – in-depth research on ideas they choose to pursue
- Report preparation
- Trade related

SQM Research notes that James McDonald and Jeremy Bendeich are contractors (rather than direct Pengana employees). Most PMs of the broader internal Pengana Equities teams are also contractors (rather than direct Pengana employees). They are employed by separate business entities, in which they are Equity holders. These entities receive a share in the profits generated by the relevant division. This is a relatively less common business model for Funds Management firms operating Managed Funds under their own brand name, although, some boutique firms do use a similar type of business model/employment arrangements. That said, the direct ownership interest in the separate business entities & the profit share component of the remuneration (for those Pengana PMs) is a positive for retention & alignment of interests.

Meeting Schedule

The table below shows regular meetings that form an essential part of the overall process.

Meeting	Agenda	Frequency	Participants
Stock Meeting	Where new opportunities/ ideas are in the markets, investment process, Q&A and research findings	Daily	Investment Team
Current Positions	To monitor and discuss portfolio management and overall portfolio exposures & position weights and any potential issues.	Weekly	Investment Team
Risk	To discuss factor & style risk and attribution analysis	Quarterly	Risk & Investment Team

SQM Research believes the practice of constant communication and the broad-based inclusion of team members in decision-making is a vital ingredient to the success of the process. Interactive peer review and collaboration across a tightly knit group of experienced investors will likely make the best use of their combined intellectual property and shared history.

Staffing Changes

The staff changes in the Pengana international equity investment team over the last 3 years have been listed below.

None of the individuals that have departed were dedicated resources for the High Conviction Fund. Veronica Price and Jeremy Bendeich are dedicated resources for the Fund.

Departures			
Date	Name	Responsibility	Reason for Departure
09-Jul-19	Tim Blake	Equity Analyst	Other Opportunity
11-Mar-21	Jordan Cvetanovski	CIO	Other Opportunity
11-Mar-21	Steven Glass	Deputy Portfolio Manager and Analyst	Other Opportunity
11-Mar-21	Ryan Fisher	Equity Analyst	Other Opportunity
11-Mar-21	Ronald Yu	Equity Analyst	Other Opportunity
19-Apr-21	Joy Yacoub	Executive Director - International Equities	Resignation

Additions / Hires			
Date	Name	New Responsibility	Previous Position / Employer
13-Jan-20	Veronica Price	Equity Analyst	Macquarie Bank
20-Jan-20	Joy Yacoub	Executive Director - International Equities	Allan Gray
01-May-21	Jeremy Bendeich	Portfolio Manager	Avoca IM Founder; UBS, CFS, Citibank

SQM Research observes that the levels of investment experience are strong but the company tenure is relatively short across the investment team. The size and nature of the recent staff turnover in the broader Equities team (notwithstanding their limited input into this Fund) are a negative for the overall Pengana team, in SQM's view.

Remuneration and Incentives

Senior investment professionals, including James McDonald and Jeremy Bendeich, have direct profit shares in their business units and are rewarded for fund performance and assets under management. Capacity limits and performance fees focus the monetary incentive more tightly on fund performance.

James McDonald and his family are the largest investors in the Fund.

SQM Research believes remuneration in the form of firm equity and client-focused performance bonuses act as strong incentives for optimising staff engagement, retention and productivity. The intention (and SQM believes, the effect) is to align staff performance with client and shareholder objectives. It focuses on the customers' needs and medium to long-term results.

Fees and Costs	Fund (Class A)	Fund (Class B)	Peer Avg
Management Fee (% p.a.)	1.80%	1.25%	1.23%
Expense Recovery (% p.a.)	0.19%	-	-
Performance Fee (%)	15.38%	20%	-
Indirect Cost Ratio ICR (% p.a.)	6.42%	1.98%	1.58%
<i>ICR Date: FY21</i>			
Buy Spread (%)	0.25%	0.25%	0.30%
Sell Spread (%)	0.25%	0.25%	0.30%
Other Features	Fund		
Redemptions	Daily		
Distributions	Semi-Annually		

Note: 'Class A' units are the original class - Pengana has advised that these are not being promoted to new investors, and therefore the fee charged for the 'Class B' units is more relevant for prospective investors. The 'Class B' units were launched in July 2020.

Management Fee

The management fee includes GST and is net of any applicable Reduced Input Tax Credits (RITC).

Performance Fee

There is a performance fee charged as follows:

- For 'Class A' units: **15.38%** of the amount by which the Fund's investment returns (after base management fees have been deducted) exceed the returns of the performance fee Benchmark (**RBA Cash Rate + 3% p.a.**).
- For 'Class B' units: **20%** of the amount by which the Fund's investment returns (after base management fees have been deducted) exceed the returns of the performance fee Benchmark (**MSCI World Total Return Index, net in AUD**).
- Including GST and impact of RITC (Reduced Input Tax Credit)
- Fee is accrued daily and (if applicable) paid to the Manager half-yearly.
- The fee is adjusted for any prior accumulated negative performance fee. Underperformance in a previous performance period is required to be made-up for before a performance fee is payable. This creates a permanent high-water mark.

SQM Research observes that:

- For 'Class A' units: The Fund management fee is **1.80% p.a.**, which is **57 basis points higher than the peer group average of 1.23% p.a.** : The ICR (or total fee) for FY2021 is **6.42% p.a.**, which is **484 bps higher than the peer group average of 1.58% p.a.**
- For 'Class B' units: The Fund management fee is **1.25% p.a.**, which is almost the same as the peer group average of **1.23% p.a.** : The ICR (or total fee) for FY2021 is **1.98% p.a.**, which is **40 basis points higher than the peer group average of 1.58% p.a.**
- The performance fees are structured as per the details above.
- The performance fees, at the above rates, are similar to the average of peers that charge a performance fee. However, the hurdle rate for the 'Class A' units is quite low (considering the cash rate of close to 0) and therefore easy to achieve.

Risk/Return Data to 31 July 2021							
Total Return	1-Month	3-Month	6-Month	1-Year	3-Year	5-Year	Inception
Fund	-3.62	1.21	4.35	32.95	17.13	10.26	31.78
Benchmark	3.97	10.13	21.32	31.78	14.93	15.06	13.16
Peer Average	2.09	6.64	18.59	43.04	11.91	12.44	9.92
Alpha	-7.58	-8.92	-16.96	1.17	2.21	-4.80	18.62
Metrics				1-Year	3-Year	5-Year	Inception
Tracking Error (% p.a.) - Fund				14.31	14.24	16.12	25.81
Tracking Error (% p.a.) - Peer Average				9.09	9.64	8.52	8.37
Information Ratio - Fund				0.08	0.15	-0.30	0.72
Information Ratio - Peer Average				1.26	-0.32	-0.34	-0.06
Sharpe Ratio - Fund				2.00	0.77	0.47	1.17
Sharpe Ratio - Peer Average				4.78	0.65	0.75	0.59
Volatility - Fund (% p.a.)				16.48	21.05	19.22	25.80
Volatility - Peer Average (% p.a.)				9.28	17.06	14.83	14.40
Volatility - Benchmark (% p.a.)				9.33	12.44	10.73	11.13
Beta based on stated Benchmark				0.88	1.28	0.97	0.50

Dividends reinvested. Returns beyond one year are annualised. Return history starts Jan-2015

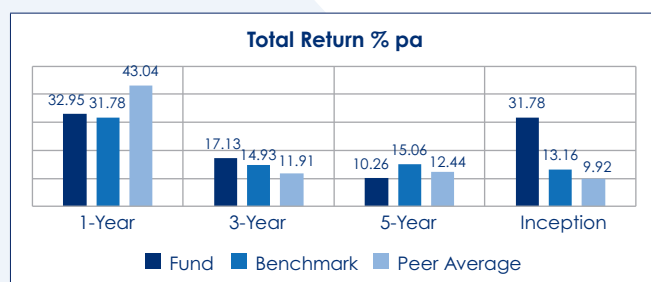
Benchmark: MSCI World NR AUD

Note: The returns data is for the 'Class A' units.

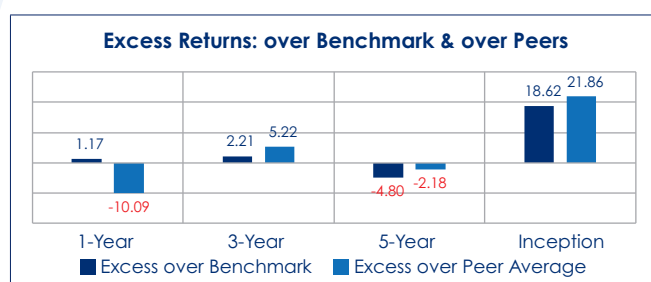
Quantitative Insight¹

Note: Unless otherwise stated, all return and risk data reported in this section are **after-fees** and for **periods ending July-2021**.

Returns



Excess Returns (Alpha)



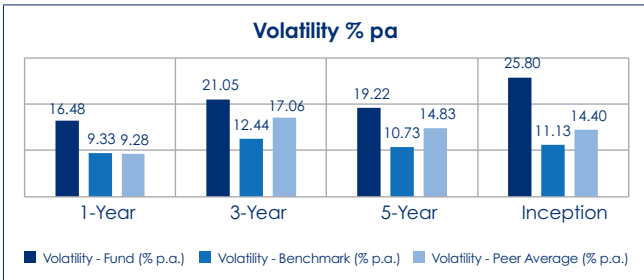
The Fund has displayed strong performance across most periods, when compared with the benchmark and the peers. The Fund has underperformed the benchmark and the peer group average over the last 5 years, but has outperformed very substantially on a since inception basis. **SQM Research observes that a very significant proportion of the total outperformance since inception was achieved in the 1st year i.e. 2015 and to a lesser extent in the 2nd year (as shown earlier in the report).**

A brief note on the Fund's history (prior to the merger between Pengana and Hunter Hall in June 2017): From December 2014 (the Fund's inception) to January 2017, Peter Hall was the CIO of Hunter Hall and James McDonald was the deputy CIO. After Peter Hall's resignation, and then the Pengana-Hunter Hall merger in June 2017, James McDonald was confirmed as the PM and he has been fully responsible for the Fund since then.

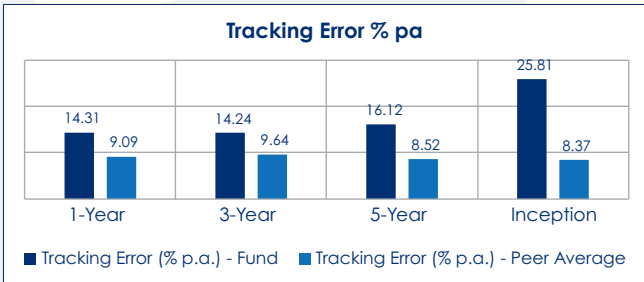
The **return outcomes** as described above exceed the PDS objective, and are above SQM's expectations for the Fund relative to its fee level and volatility.

¹ Note: Sharpe and Information Ratios are not reliable comparison tools in periods where both the Fund and its peers/benchmark record a negative result

Risk



The Fund's **volatility** (standard deviation of monthly returns) has tended to be substantially higher than the benchmark and the peers. *SQM Research believes that this is largely a function of the Fund's benchmark unaware, concentrated, and small to mid-cap investing style bias.*



The Fund's **tracking error** (standard deviation of monthly excess returns) has tended to be substantially higher than the benchmark and the peers.

The **risk outcomes** as described above regarding volatility and tracking error are in line with the PDS statements about risk and are slightly above SQM's expectations for this Fund.

Drawdowns			
Drawdown Size (peak-to-trough)			
	Fund	Bench	Peers
Average	-7.80%	-4.39%	-7.31%
Number	11	12	9
Smallest	-0.05%	-0.87%	-0.57%
Largest	-20.24%	-13.12%	-21.59%
Length of Drawdown (in months)			
	Fund	Bench	Peers
Average	6.2	4.8	6.4

Length of Drawdown = time from peak to trough and back to previous peak level

Drawdowns have **on average** been materially worse than the benchmark and marginally worse than the peer average.

Snail Trail

The snail trail chart and tables below show the combination of the Fund's rolling 3-year excess returns and rolling 3-year excess volatility.

There are **44** observations in total.

The two tables below display the distribution of these observations and their overall frequency across the risk/return quadrants.

Snail Trail Distribution			
Frequency	Lo-Vol	Hi-Vol	Total
Hi-Return	0	33	33
Lo-Return	0	11	11
Total	0	44	44

44 rolling 3-year observations

% of Total	Lo-Vol	Hi-Vol	Total
Hi-Return	0.0%	75.0%	75.0%
Lo-Return	0.0%	25.0%	25.0%
Total	0.0%	100.0%	100.0%

In assessing a snail trail it is important to note the following:

Q1 upper left-hand quadrant - higher return than the Fund's market index with lower volatility (less risk). This is the optimal position.

Q2 upper right-hand quadrant - higher return than the Fund's market index with higher volatility (more risk). This can often be a desirable position depending on the attractiveness of the Sharpe ratios produced in this zone. It is important to note that in the case of inflation or cash-style benchmarks, the Q1 top left-hand quadrant is unachievable as it is not possible to deliver lower volatility than what is virtually zero for the benchmark. In such cases, the Q2 zone is the optimal position.

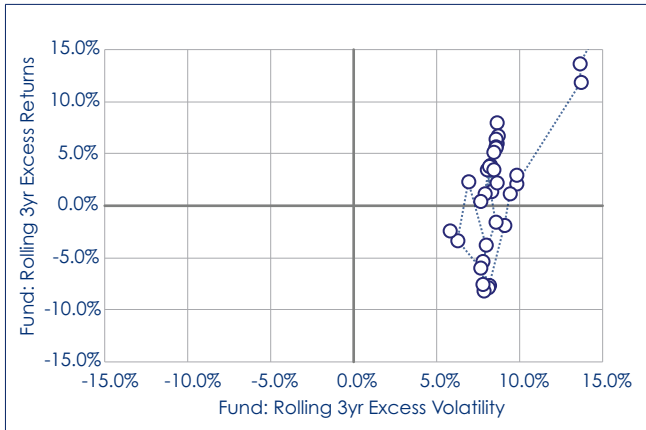
Q3 lower left-hand quadrant - lower return than the Fund's market index with lower volatility (less risk). Less than ideal, and Sharpe ratios can assist in assessing the risk/return trade-off in this zone.

Q4 lower right-hand quadrant - lower return than the Fund's market index with higher volatility (more risk). The least desirable outcome.

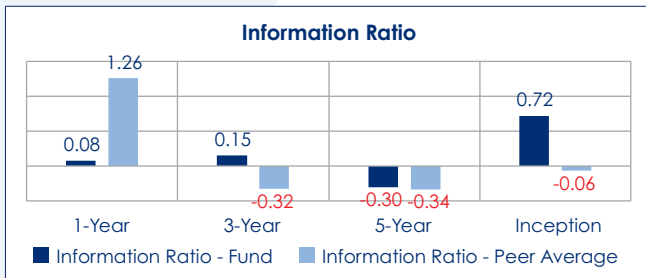
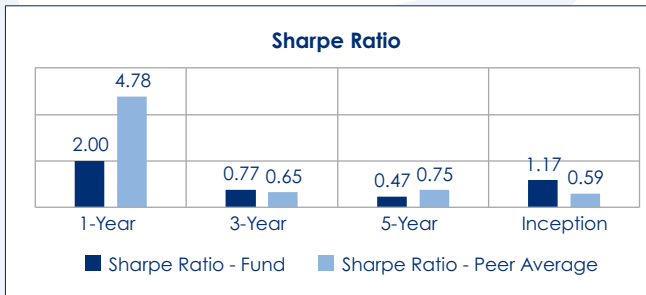
Consistency

The more "bunched together" the cluster of dots, the more consistent is the performance. A second indicator of consistency is the trail's nomadic nature. Trails that roam across multiple quadrants over time are indicating **low consistency** in the Fund's risk-return profile. The quadrant that **contains the bulk** of the Fund's snail trail is likely to be more representative of the Fund's risk/return characteristics and identity.

QUANTITATIVE ANALYSIS



Risk-Adjusted Returns



The Fund's risk-adjusted returns (as measured by Sharpe and Information ratios) have been mixed, when compared to the peer averages. The ratios are substantially better on a since inception basis. **As noted earlier, SQM Research observes that a very significant proportion of the total outperformance since inception was achieved in the 1st year i.e. 2015 and to a lesser extent in the 2nd year.**

Correlation of Fund to Asset Classes			
Index	Market	3 Years	Inception
Bloomberg AusBond Composite 0+Y TR	Aust Bonds	+1.3%	+9.4%
S&P/ASX 300 TR	Aust Stocks	+75.7%	+31.6%
BBgBarc Global Aggregate TR Hdg AUD	Global Bonds	+23.2%	+17.2%
MSCI World Ex Australia NR AUD	Global Stocks	+75.0%	+21.0%

On a 3-year basis, there is a material correlation of the Fund's returns with the S&P ASX300 index and a material correlation to global equities. That said, the correlations are low/very low on a since inception basis.

Tail Risk

*(The analysis in the table below looks at the **tail risk performance relationship of the Fund to the ASX300**, a practice that SQM has set as common across asset classes in Fund reviews. This approach recognises that for the large bulk of financial planner clients, their key traditional asset class **risk** regarding **size** and **volatility** is to Australian equities. Exploring that relationship is useful regardless of the asset class of the Fund itself, as it is helpful to understand how a Fund has acted in times of Australian equity market stress in terms of softening or exaggerating the negative performance experienced at such times.)*

The table below details the **largest negative monthly returns** for the ASX 300 **since the inception of the Fund**. This is compared to the Fund's performance over the same months.

Extreme Market Returns vs Fund Return Same Month

Index: S&P/ASX 300 TR		From: Jan-15 to Jul-21		
Rank	Date	Market	Fund	Difference
1	Mar-20	-20.83%	-17.66%	+3.17%
2	Feb-20	-7.76%	-3.14%	+4.62%
3	Aug-15	-7.70%	+1.73%	+9.43%
4	Oct-18	-6.16%	-7.81%	-1.66%
5	Jan-16	-5.45%	-0.05%	+5.40%
6	Jun-15	-5.32%	+6.74%	+12.06%
7	Mar-18	-3.73%	+0.07%	+3.80%
8	Sep-20	-3.59%	-2.21%	+1.39%
9	Sep-15	-2.86%	+27.03%	+29.89%
10	May-17	-2.74%	-7.87%	-5.13%
TOTALS		-66.14%	-3.16%	+62.98%

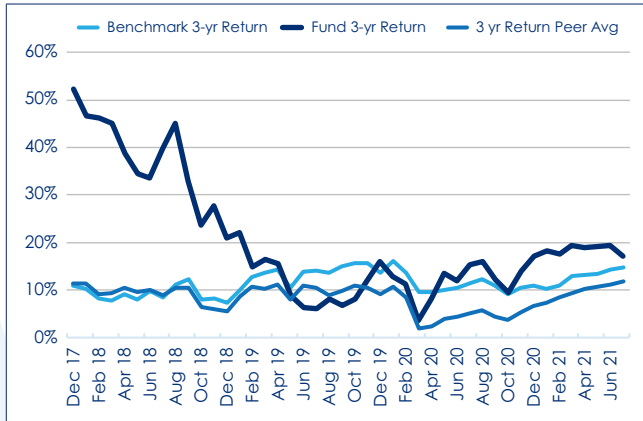
		No. of Months
Correlation	+57.7%	Positive Return 4
Capture	+4.8%	Outperform 8

Tail Risk Observations:

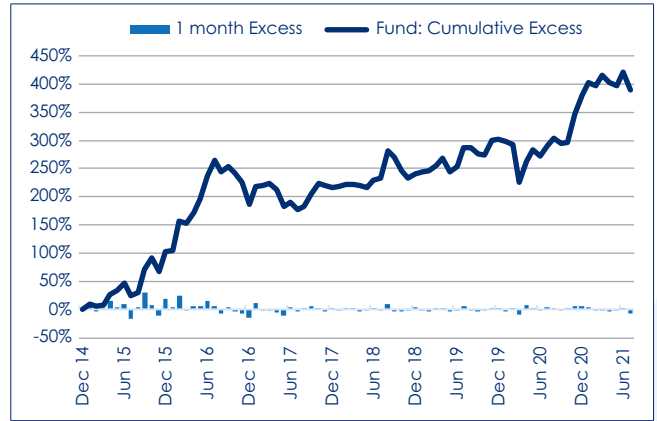
The data in the table above indicate that the Fund displays **very significant/strong defensive characteristics** in the face of extreme Australian Equity tail risk (*in the context of this being a Global Equity Fund, not a defensive Fixed Interest Fund*). **SQM Research observes that a very significant proportion of the total outperformance since inception was achieved in the 1st year i.e. 2015 and to a lesser extent in the 2nd year.**

Return and Risk

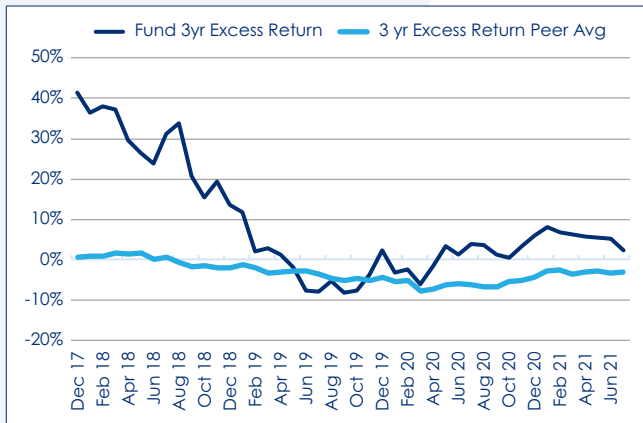
Rolling Returns



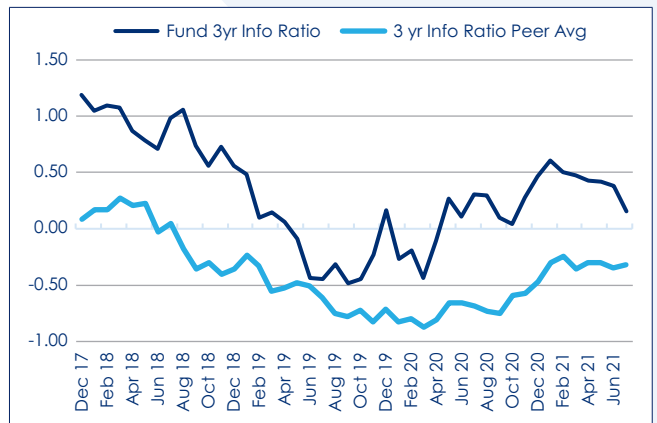
Cumulative Excess Returns



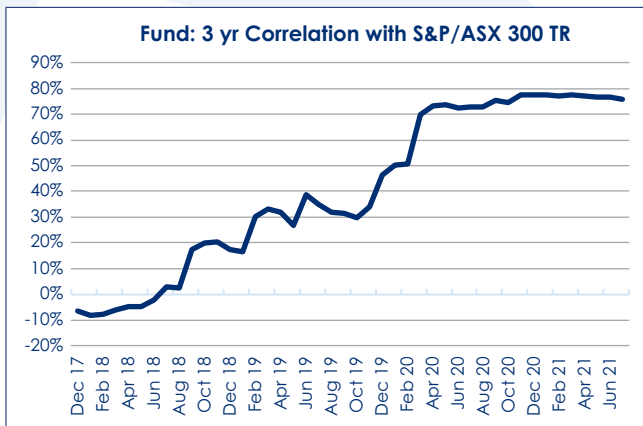
Rolling Excess Returns



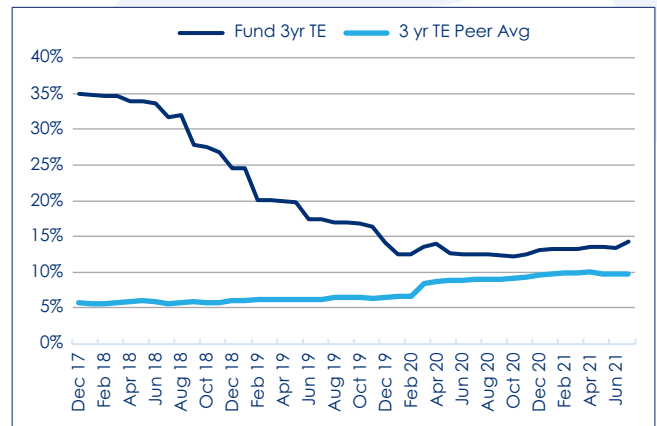
Rolling Information Ratio



Rolling Correlation

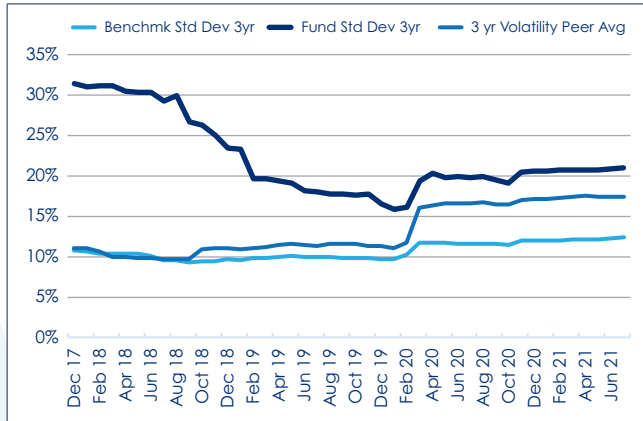


Rolling Tracking Error

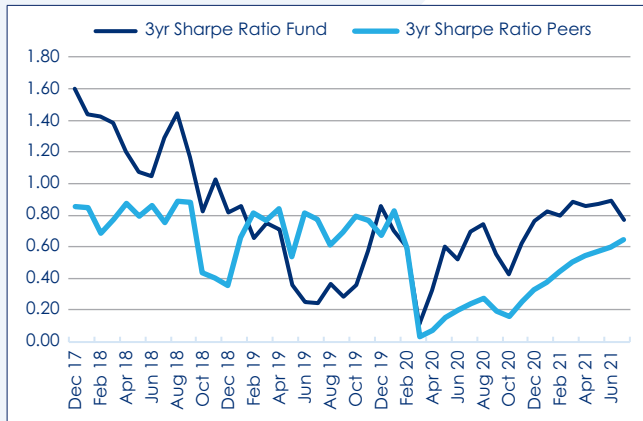


Return and Risk

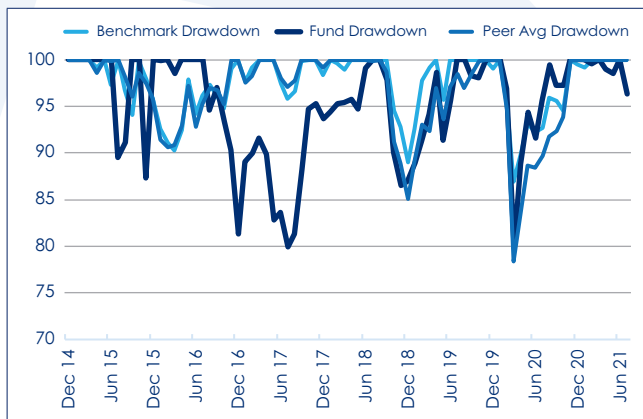
Rolling Volatility



Rolling Sharpe Ratio



Drawdowns



The tables below outline the limits on the Fund's asset allocation and other risk parameters:

Fund Constraints and Risk Limits	Permitted Range or Limit
Maximum number of securities	20
0%-100% cash and cash equivalents	100%
0%-100% Australian and global securities	100%
Other Constraints	
Maximum exposure to single security	15.00%
Maximum exposure to single stock/company	N/A
Maximum exposure to single sector	Healthcare 50% IT 30% Industrials 30% Financials 30% Consumer Discretionary 30% Communications 30% Consumer Staples 30% Materials 30% Utilities 30% Real Estate 30% Energy 0%
Maximum exposure to a single country	USA 60% UK and Japan 30% Other Developed and Korea 20% Australia 20% Emerging Markets Total 20%
Maximum exposure to geographic region	Other Developed and Korea 20% Emerging Markets Total 20%

Details of the Fund's historical portfolio allocations and other metrics are detailed below:

Fund Allocations Apr-2017 to May-2021

Geographic	Average Weight	Max Weight	Min Weight	as at May-21
Australia	14.9%	33.3%	0.0%	19.3%
USA	31.3%	51.3%	0.0%	34.5%
Japan	2.0%	8.3%	0.0%	8.3%
UK	1.4%	5.5%	0.0%	0.0%
France	0.1%	2.6%	0.0%	0.0%
Germany	5.3%	14.3%	0.0%	3.8%
Russia	0.0%	0.0%	0.0%	0.0%
Other Europe	28.8%	88.6%	12.9%	20.4%
China	2.2%	10.4%	0.0%	0.0%
Korea	0.0%	0.0%	0.0%	0.0%
Taiwan	0.0%	0.0%	0.0%	0.0%
India	0.0%	0.0%	0.0%	0.0%
Malaysia	0.0%	0.0%	0.0%	0.0%
Other Asia	0.0%	0.0%	0.0%	0.0%
Brazil	1.9%	22.6%	0.0%	0.0%
Mexico	0.0%	0.0%	0.0%	0.0%
Cash	9.6%	21.9%	0.0%	11.4%

Equity Sector	Average Weight	Max Weight	Min Weight	as at May-21
Financials	1.9%	6.8%	0.0%	0.0%
Information Technology	15.7%	25.3%	4.6%	14.9%
Health Care	35.3%	63.1%	8.3%	42.4%
Consumer Discretionary	6.5%	12.8%	0.0%	12.8%
Consumer Staples	1.0%	5.5%	0.0%	3.0%
Energy	0.0%	0.0%	0.0%	0.0%
Materials	13.1%	58.1%	0.0%	0.0%
Industrials	5.5%	19.2%	0.0%	2.8%
Communication Services	5.5%	16.7%	0.0%	7.0%
Utilities	0.0%	0.0%	0.0%	0.0%
Real Estate	4.2%	5.8%	0.0%	5.7%
Cash	11.2%	22.6%	2.1%	11.4%

Region Profile	Current	Benchmark	Active
Australia	19.26%	2.48%	+16.78%
North America	34.50%	69.70%	-35.20%
South America	0.00%	0.19%	-0.19%
Europe (incl UK)	24.23%	18.80%	+5.43%
Asia (incl Japan)	8.28%	8.46%	-0.18%
Other	2.35%	0.37%	+1.98%

Sector Profile	Current	Benchmark	Active
Financials	0.00%	14.22%	-14.22%
Information Technology	14.89%	20.99%	-6.09%
Health Care	42.40%	12.37%	+30.02%
Consumer Discretionary	12.81%	11.92%	+0.89%
Consumer Staples	3.04%	7.18%	-4.14%
Energy	0.00%	3.11%	-3.11%
Materials	0.00%	4.66%	-4.66%
Industrials	2.76%	10.93%	-8.17%
Communication Services	7.02%	9.05%	-2.03%
Utilities	0.00%	2.87%	-2.87%

Currency	Average Weight	Max Weight	Min Weight	as at May-21
AUD	31.9%	99.0%	13.7%	29.7%
USD	36.0%	54.9%	-0.6%	34.5%
EUR	9.6%	18.4%	0.0%	10.8%
GBP	1.9%	7.5%	0.0%	0.0%
CHF	0.3%	4.0%	0.0%	4.0%
RUB	0.0%	0.0%	0.0%	0.0%
Other Europe	15.1%	26.8%	0.0%	10.4%
JPY	2.1%	8.3%	0.0%	8.3%
CNY	0.0%	0.0%	0.0%	0.0%
Other Asia	1.4%	6.7%	0.0%	0.0%
Other	1.7%	6.2%	0.0%	2.3%

Region Profile	Current	Benchmark	Active
Australia	19.26%	2.48%	+16.78%
North America	34.50%	69.70%	-35.20%
South America	0.00%	0.19%	-0.19%
Europe (incl UK)	24.23%	18.80%	+5.43%
Asia (incl Japan)	8.28%	8.46%	-0.18%
Other	2.35%	0.37%	+1.98%

Key Investment Staff

James McDonald: Portfolio Manager

Prior to joining Pengana, James was Deputy Chief Investment Officer of Hunter Hall Investment Management Limited and Executive Director Hunter Hall International (UK) Limited. James relocated to Sydney in 2014 from Hunter Hall's research office in London where he had been based since 2003. His main investment focus is on the European, American and Japanese markets. He contributes to asset mix, capital allocation, team management and team selection decisions. James has 19 years of industry experience, including six years at BT Funds Management in the positions of Japanese Electronics Analyst and US Telecoms, Telecoms Equipment and Data Networking Analyst. James holds a Bachelor of Commerce and Bachelor of Law degrees from the University of Queensland.

Jeremy Bendeich: Portfolio Manager

Jeremy is the Portfolio Manager of Pengana High Conviction Equities Fund and has over 25 years experience in financial markets having worked at top-tier Australian and international firms. In 2011, he co-founded Avoca Investment Management, and was the Chief Investment Officer until 30 June 2020, during which time Avoca FUM grew to \$1.1bn. He has wide experience in Portfolio Management & Strategy; Company Analysis & activism and marketing. Prior to starting Avoca, Jeremy worked as Co-portfolio Manager (Australian mid/ small caps) at UBS Global Asset Management. Prior to UBS, he worked as Equities Analyst at Colonial First State and with Citibank. He started his career at Treasury working as an Analyst in Corporate Tax policy.

Veronica Price: Equity Analyst

Veronica is an Equity Analyst in the Pengana international equities investment team. Prior to joining Pengana, Veronica spent 2 years at Macquarie Group in their investment management division, working mainly in the quantitative equities team. Veronica graduated with a Bachelor of Mathematics and Finance from the University of Technology Sydney.

DISCLAIMER

Although all reasonable care has been taken to ensure that the information contained in this document is accurate, neither SQM Research nor its respective officers, advisers or agents makes any representation or warranty, express or implied as to the accuracy, completeness, currency or reliability of such information or any other information provided whether in writing or orally to any recipient or its officers, advisers or agents.

SQM Research and its respective officers, advisers, or agents do not accept:

- any responsibility arising in any way for any errors in or omissions from any information contained in this document or for any lack of accuracy, completeness, currency or reliability of any information made available to any recipient, its officers, advisers, or agents; or
- any liability for any direct or consequential loss, damage or injury suffered or incurred by the recipient, or any other person as a result of or arising out of that person placing any reliance on the information or its accuracy, completeness, currency or reliability.

This document contains statements which reflect current views and opinions of management and information which is current at the time of its release but which may relate to intended or anticipated future performance or activities. Such statements and financial information provided have been estimated only and are based on certain assumptions and management's analysis of the information available at the time this document was prepared and are subject to risk and uncertainties given their anticipatory nature. Actual results may differ materially from current indications due to the variety of factors.

Accordingly, nothing in the document is or should be relied upon as a promise or representation as to the future or any event or activity in the future and there is no representation, warranty or other assurance that any projections or estimations will be realised.

By accepting the opportunity to review this document the recipient of this information acknowledges that:

- it will conduct its own investigation and analysis regarding any information, representation or statement contained in this or any other written or oral information made available to it and will rely on its own inquiries and seek appropriate professional advice in deciding whether to further investigate the business, operations and assets of the business; and
- to the extent that this document includes forecasts, qualitative statements and associated commentary, including estimates in relation to future or anticipated performance, no representation is

made that any forecast, statement or estimate will be achieved or is accurate, and it is acknowledged that actual future operations may vary significantly from the estimates and forecasts and accordingly, all recipients will make their own investigations and inquiries regarding all assumptions, uncertainties and contingencies which may effect the future operations of the business.

In providing this document, SQM Research reserves the right to amend, replace or withdraw the document at any time. SQM Research has no obligation to provide the recipient with any access to additional information or to release the results of or update any information or opinion contained in this document.

Reproduction

SQM Research assessment reviews cannot be reproduced without prior written permission from SQM Research. Each assessment review completed by SQM Research is held under copyright. Extracts may not be reproduced.

Requests to reproduce or use an SQM Research assessment review should be sent to info@sqmresearch.com.au

Disclosure

SQM Research has no involvement in this fund or any of the organisations contained in the product disclosure statement. This assessment does not constitute an investment recommendation. It is designed to provide investment advisers with a third party view of the quality of this fund, as an investment option. SQM Research charges a standard and fixed fee for the third party review. This fee has been paid under the normal commercial terms of SQM Research.

Analyst remuneration is not linked to the rating outcome. Where financial products are mentioned, the Analyst(s) may hold financial product(s) referred to in this document, but SQM Research considers such holding not to be sufficiently material to compromise the rating or advice. Analyst holdings may change during the life of the report. The Analyst(s) certify the views expressed in the report accurately reflects their professional opinion about the matters and financial product(s) to which the report refers.

SQM Research, under its Australian Financial Services Licence (Licence number 421913) operates under the provisions set down under ASIC Regulatory Guide 79.

Please note a Financial Services Guide and a [Conflicts of Interest policy](#) is available on our website. Subscribers to SQM Research receive access to the full range of fund research, ratings and fund updates.

This report has been prepared for Financial Advisers Only.



SQM
RESEARCH

Address:

Level 16, 275 Alfred Street
North Sydney, New South Wales, 2060

Contacts:

Louis Christopher 02 9220 4666
Rob da Silva 02 9220 4606

Analyst:

Chetan Trehan

Central Contacts:

Phone: 1800 766 651
Email: info@sqmresearch.com.au
Web: www.sqmresearch.com.au