# Pengana High Conviction Equities Fund

This report has been prepared for financial advisers and wholesale clients only

**Superior**

October 2025

# 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

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## Report Date: 2 October 2025

| Star Rating** | Description | Definition | |
|---|---|---|---|
| *4½ stars and above* | *Outstanding* | ***Highly suitable for inclusion on APLs***<br>*SQM Research believes the Fund has substantial potential to outperform over the medium-to-long term. Past returns have typically been very strong. Product disclosure statement (PDS) compliance processes are high-calibre. There are no corporate governance concerns. Management is extremely experienced, highly skilled and has access to significant resources.* | *Highest Investment Grade* |
| *4¼ stars* | *Superior* | ***Suitable for inclusion on most APLs***<br>*SQM Research considers the Fund has considerable 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.* | *High Investment Grade* |
| *4 stars* | *Superior* | ***Suitable for inclusion on most APLs***<br>*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 material governance concerns. Management is of a high calibre.* | *High Investment Grade* |
| *3¾ stars** | *Favourable* | ***Consider for APL inclusion***<br>*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, however they may not be yet fully tested. As a result the manager/product may have higher risks attached compared to peers.* | *Investment Grade* |
| *3½ stars** | *Acceptable* | ***Consider for APL inclusion***<br>*In SQM Research's view, the potential for future outperformance in the medium-to-long term is uncertain. Historical performance has tended to be modest or patchy. Management is generally experienced and displays investment-grade quality, however they may not be yet fully tested. As a result the manager/product may have higher risks attached compared to peers. SQM Research has identified material weaknesses which need addressing in order to improve confidence in the Manager. There might be some corporate governance concerns.* | *Low Investment Grade* |
| *3¼ stars* | *Caution Required* | ***Not suitable for most APLs***<br>*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 potentially substandard. There might be material corporate governance concerns. Management quality is not of investment-grade standard.* | |
| *3 stars* | *Strong Caution Required* | ***Not suitable for APL inclusion***<br>*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 could be material corporate governance concerns. SQM Research has a number of concerns regarding management.* | |
| *Below 3 stars* | *Avoid or Redeem* | ***Not suitable for APL inclusion***<br>*SQM Research has multiple material concerns surrounding the Fund.* | |

| Event-driven Rating | Definition |
|---|---|
| ***Withdrawn*** | *The rating is withdrawn and no longer applicable. Significant issues have arisen since the last report was issued, and investors should avoid or redeem units in the fund.* |
| ***Discontinued - Withdrawn*** | *The manager, after agreeing to be reviewed, has pulled out of the process and/or has not responded.* |
| ***Hold*** | *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. Dealer groups should not be making further investments into this fund until SQM has completed its additional investigations.* |

* *It is strongly recommended advisers conduct additional due diligence over and above base requirements when considering such rated funds.*

** *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.*

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**SQM Rating** ★★★★☆ *Superior. Suitable for inclusion on most APLs.*

| | |
|---|---|
| **Fund Description** | |
| Fund Name | Pengana High Conviction Equities Fund |
| APIR code | Class A HHA0020AU; Class B PCL9196AU |
| Asset Class | Global Equities |
| **Management and Service Providers** | |
| Fund Manager | Pengana Capital |
| Responsible Entity | Pengana Capital |
| **Fund Information** | |
| Fund Inception Date | 11-Dec-14 Class A 15-Jul-20 Class B |
| Fund Size | $116.18 million |
| Return Objective (per PDS/IM) | 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 | As above |
| Risk Level (per PDS/IM) | Very High |
| Internal Risk Objective | N/A |
| Benchmark | RBA Cash Rate target +3%, MSCI World Total Return Index |
| Number of stocks/positions | Max 20 securities |
| Fund Leverage | None |
| Portfolio Turnover | 62.38% |
| Top 10 Holdings Weight | 84.57% |
| **Investor Information** | |
| Management Fee | Class A: 1.80% pa of the Class' NAV (including GST net of RITC)<br>Class B: 1.25% pa of the Class' NAV (including GST net of RITC) |
| TCR (Total Cost Ratio) | For FY 2025 - Class A : 7.852% (Includes Performance fee of 5.872% and Class B : 6.412% (Includes Performance fee of 5.162%) |
| 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<br><br>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 |
| Minimum Application | $10,000 |
| Redemption Policy | Daily |
| Distribution Frequency | Half-yearly (June and December) |
| Investment Horizon | 7+ Years |
| Currency Hedging Policy | Unhedged |

## Fund Summary

### Description

The **Pengana High Conviction Equities Fund (the "Fund")** is an actively managed global equities strategy that invests in a concentrated portfolio of up to 20 securities. The Fund primarily targets listed, or in select cases, soon-to-be-listed global equities, with occasional investment in unlisted opportunities. It applies an ethical screen that excludes companies engaged in activities deemed harmful to humans, animals, or the environment.

The Fund is available in two classes of units:

**Class A (APIR: HHA0020AU)**: Charges a management fee of 1.80% p.a. and a performance fee of 15.38% of returns above the RBA Cash Rate +3% p.a., payable half-yearly.

**Class B (APIR: PCL9196AU)**: Charges a lower management fee of 1.25% p.a. but applies a higher performance fee of 20% of returns above the MSCI World Total Return Index (net, AUD), also payable half-yearly.

The Fund adopts a bottom-up, benchmark-unaware investment approach with a growth style bias and an emphasis on small to mid-cap companies. The investment philosophy centres on identifying companies trading at a significant discount to intrinsic value, typically with strong balance sheets and aligned management teams. The strategy allows for a high degree of flexibility, with the ability to hold up to 100% cash or allocate a substantial weight to a single position, reflecting the Manager's conviction-led process.

The investment objective across both classes is to deliver returns exceeding the RBA Cash Rate +3% p.a. and to outperform the MSCI World Total Return Index (net, AUD) over the long term. Portfolio characteristics typically include 15–20 holdings, a high active share, and a concentrated top 10 portfolio weight above 80%. The Fund does not hedge currency exposures, reflecting its global focus. Its high-conviction approach, ethical exclusions, and willingness to take outsized positions distinguish it from more conventional global equity strategies.

The Fund is structured as an open-ended, unlisted, registered managed investment scheme, with Pengana Capital Limited acting as both the Investment Manager and Responsible Entity.

## 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 |

**Previous Rating: 4.00 stars (Issued Sep 2024)**

## SQM Research's Review & Key Observations

### About the Manager

**Pengana Capital Limited ("Pengana")** is the Responsible Entity and Investment Manager of the Fund. Pengana is a wholly owned subsidiary of **Pengana Capital Group Limited (ASX: PCG)**, a diversified Australian funds management group. Headquartered in Sydney with offices in Melbourne, Brisbane and Perth, Pengana manages approximately A$3.5 billion across a suite of international and domestic strategies.

Founded in 2003, Pengana has developed a reputation for delivering distinct investment strategies with a focus on long-term risk-adjusted returns and capital preservation. The group operates with independent investment teams managing strategies across global and Australian equities.

The Fund is co-managed by James McDonald and Jeremy Bendeich, both of whom serve as Portfolio Managers and are jointly responsible for research, portfolio construction and trading. The investment team is deliberately small, reflecting the highly concentrated nature of the strategy, and both Portfolio Managers provide backup for one another to mitigate key person risk.

### Responsible Entity

The Responsible Entity of the Pengana High Conviction Equities Fund is Pengana Capital Limited ("PCL"). PCL is a wholly owned subsidiary of Pengana Capital Group Limited (ASX: PCG) and holds Australian Financial Services Licence (AFSL) 226566. As Responsible Entity, PCL is accountable for the overall operation of the Fund, including compliance, administration, and adherence to its constitution and the Corporations Act.

The Board of Directors of PCL comprises **3 members**: Russel Pillemer, Nick Griffiths, and Keith McLachlan, **none of whom** are considered independent. The absence of independent directors reduces the degree of external oversight in governance.

PCL has delegated certain operational responsibilities to external service providers, including BNP Paribas as custodian and administrator. Nonetheless, ultimate responsibility for ensuring that the Fund is managed in the best interests of investors remains with the Responsible Entity. SQM Research prefers the inclusion of independent members on the Board of Directors – it is a meaningful way to enhance governance and oversight.

The Responsible Entity's **Compliance Committee** is composed of **3** members, **2** of whom are independent. The Chair **is** independent. 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 **35.0** years of industry experience.

### Investment Team

The Pengana High Conviction Equities Fund is managed by a deliberately small investment team comprising two Portfolio Managers, James McDonald and Jeremy Bendeich. Both individuals share joint responsibility for the Fund's research, portfolio construction, and trading, and act as backups for one another in the event of absence. This co-management structure is intended to reduce reliance on a single individual, with both Portfolio Managers operating as generalists while applying their individual areas of sector expertise.

James McDonald, Portfolio Manager, has extensive experience in equity markets, having been involved in research and portfolio management across a range of listed equities strategies prior to his current role. He has been a key member of the Pengana investment team since taking on co-management responsibilities for the Fund.

Jeremy Bendeich, Portfolio Manager, also brings significant experience in equity markets, with a background that spans company analysis, investment strategy, and fund management. Like McDonald, Bendeich is actively involved in all aspects of the Fund, from idea generation to execution.

The team's structure reflects the concentrated nature of the portfolio, which typically comprises 15–20 positions. With only one strategy under management, investment professionals can dedicate their time to in-depth analysis of prospective investments. The Portfolio Managers review numerous opportunities, with decisions grounded in detailed fundamental analysis and supported by internal discussions. All positions are meaningful, conviction-led allocations intended to reflect long-term investment perspectives.

Turnover within the investment team has been minimal. The Fund has historically been overseen by a stable group of professionals, and no material departures have been recorded in recent years. This stability is a positive feature given the concentrated, high-conviction style of the Fund.

While the small size of the team allows for efficient decision-making and alignment of views, it does introduce key person risk. The Fund is highly reliant on the skills and experience of the two Portfolio Managers. Although the co-management arrangement provides a degree of mitigation, SQM Research considers that the loss of either McDonald or Bendeich could have a material impact on the Fund's investment capability.

***Considering the sector, investment process/style, and the team's size, SQM Research is of the opinion that the Key Person risk is "medium".***

## 1. Investment Philosophy and Process

### Investable Universe

The investable universe for the Pengana High Conviction Equities Fund consists primarily of listed global equities, with the flexibility to invest in soon-to-be-listed securities and, on occasion, unlisted opportunities. The strategy is benchmark-unaware, and as such, the investment team is not constrained to specific indices, sectors, or regions. While the Fund may invest across the full spectrum of market capitalisations, the emphasis is typically on small to mid-cap companies where inefficiencies are perceived to be greater.

The portfolio is concentrated, holding no more than 20 positions, and may include both Australian and international securities. Sector exposures vary significantly over time, reflecting bottom-up stock selection rather than macroeconomic or index-driven allocations. The Fund has the ability to hold up to 100% cash if suitable opportunities are not identified, and foreign currency exposures are generally left unhedged. This wide remit provides scope for the managers to respond dynamically to market conditions and opportunities.

### Philosophy / Process / Style

The investment philosophy of the Pengana High Conviction Equities Fund is centred on the belief that markets often misprice companies with strong fundamentals due to temporary challenges, lack of investor attention, or being out of favour with mainstream research coverage. The Managers seek to exploit these inefficiencies by identifying securities trading at a significant discount to intrinsic value while maintaining a preference for companies with robust balance sheets and aligned management ownership.

The Fund applies a bottom-up, benchmark-unaware approach with a growth style bias. Research is conducted internally by the Portfolio Managers and focuses on detailed company analysis rather than macroeconomic or thematic positioning. Sources of idea generation include company financial statements, transcripts, industry journals, external research, and direct meetings with management teams.

All investments are subject to a rigorous assessment process, which incorporates both valuation and quality filters. Valuation techniques include discounted cash flow modelling and relative peer comparisons. Quality considerations include balance sheet strength, competitive position, and evidence of shareholder alignment. In many cases, management teams with significant equity ownership are favoured, as this creates a closer alignment of interests with the Fund.

The Fund also applies an ethical negative screen, which excludes companies deriving revenue from activities considered harmful to humans, animals, or the environment. Environmental, Social and Governance (ESG) considerations are integrated into the investment process, primarily through these exclusions and through ongoing assessment of governance quality and management practices.

Portfolio construction reflects a high-conviction approach, with typically 15–20 securities. Position sizes are meaningful, and a single holding may represent a substantial portion of the Fund. The Managers retain flexibility to allocate capital dynamically, with the ability to hold elevated levels of cash when opportunities are limited. This process results in a concentrated, differentiated portfolio that can materially diverge from conventional global equity indices.

### Portfolio Biases/Preferences

The Fund may invest in any Australian or globally listed equities, including those outside the MSCI World Index. While sector and regional exposures vary over time according to stock selection, a **bias toward small and mid-cap companies** is expected to remain more consistent. The portfolio has historically exhibited higher exposure to the **healthcare, materials,** and **technology sectors**, with comparatively lower weighting to financials. The Fund applies a negative ethical screen, excluding companies generating material revenues from activities considered harmful to people, animals, or the environment.

### Liquidity

The Fund invests predominantly in listed global equities, which are generally liquid under normal market conditions. Liquidity is further managed through the Fund's relatively small number of holdings and ability to adjust position sizes as required. Redemption requests are processed daily, consistent with the liquidity profile of the underlying investments.

### Leverage

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

## 2. Performance & Risk

### Return Objective

The return objective stated in the PDS is: "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."

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

### Material Risks

*Advisers and Investors should refer to the 'Risks' section of the **PDS**. Risks other than those mentioned in this section (or the PDS) may also have a material adverse impact on the Portfolio's performance or value.*

Material risks which are associated with the Fund include:

**Concentration risk:** With typically 15–20 holdings, the Fund is highly concentrated. Individual stock movements can materially impact portfolio returns.

**Key person risk:** The strategy relies on a small investment team of two Portfolio Managers. The departure or incapacity of either could adversely affect performance.

**Liquidity risk:** While the Fund invests in listed securities, its small to mid-cap focus may expose it to reduced liquidity compared to large-cap equities, particularly in stressed market conditions.

**Style/market risk:** The Fund's benchmark-unaware, high-conviction approach may lead to significant performance divergence from broader equity markets over shorter periods.

**Currency risk:** Foreign investments are unhedged, exposing the Fund's returns to exchange rate fluctuations.

**Risk Objective**

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

In SQM Research's view, the Fund's concentrated structure and reliance on a small investment team elevate key person and concentration risk, although these are partially mitigated by the co-management model and ethical exclusions.

**Class A Performance to 31 August 2025 (% p.a.)**

| Total Return | 1-Month | 3-Month | 6-Month | 1-Year | 3-Year | 5-Year | Inception |
|---|---|---|---|---|---|---|---|
| Fund | 1.22 | 47.00 | 27.15 | 35.40 | 41.39 | 22.91 | 27.64 |
| Benchmark | 0.94 | 6.60 | 5.17 | 19.92 | 20.35 | 15.69 | 12.97 |
| Peer Average | 1.38 | 5.91 | 6.53 | 17.11 | 16.62 | 12.11 | 9.81 |
| Alpha | 0.28 | 40.40 | 21.97 | 15.48 | 21.04 | 7.22 | 14.67 |

With distributions reinvested. Returns beyond one year are annualised. Return history starts Jan-2015
Benchmark: MSCI World NR AUD

**Class B Performance to 31 August 2025 (% p.a.)**

| Total Return | 1-Month | 3-Month | 6-Month | 1-Year | 3-Year | 5-Year | Inception |
|---|---|---|---|---|---|---|---|
| Fund | 1.33 | 46.84 | 27.30 | 37.32 | 41.48 | 23.42 | 23.76 |
| Benchmark | 0.94 | 6.60 | 5.17 | 19.92 | 20.35 | 15.69 | 16.18 |
| Peer Average | 1.38 | 5.91 | 6.53 | 17.11 | 16.62 | 12.11 | 12.57 |
| Alpha | 0.39 | 40.24 | 22.13 | 17.40 | 21.13 | 7.74 | 7.57 |

With distributions reinvested. Returns beyond one year are annualised. Return history starts Aug-2020
Benchmark: MSCI World NR AUD

**Length of Track Record**

The Fund has a history of 10.7 years (or 128 months).

Observations and analysis of returns will have substantial statistical meaning as a result of the sample size of observations.

**Strengths**

- Concentrated, high-conviction portfolio designed to exploit market inefficiencies in small and mid-cap equities.
- Ethical screening process excludes companies engaged in activities harmful to people, animals, or the environment.
- Benchmark-unaware approach provides flexibility to invest outside traditional indices, including unlisted or pre-IPO opportunities.
- Experienced co-Portfolio Managers with aligned responsibilities and complementary skill sets.
- Stable investment process that has remained consistent since inception.

### Weaknesses

- Small investment team increases key person risk, with heavy reliance on two Portfolio Managers.
- High concentration increases volatility and stock-specific risk relative to more diversified equity funds.

### Other Considerations

- Currency exposures are unhedged, adding to potential return variability.
- The Fund is relatively small in scale compared to larger global equity peers, though Pengana Capital Group has broader institutional resources.
- Ethical screens narrow the investable universe, which may at times limit opportunities or constrain sector allocations.
- Portfolio turnover is relatively high, reflecting the active, opportunistic approach of the strategy.
- The portfolio has no true hard limits in relation to individual position size nor sector exposure.

### Key Changes Since the Last Review

- No changes to the investment process since the previous review

## Investment Process Diagram

| Upside | Risk | Implied weight |
|---|---|---|
| • Discount to intrinsic value<br>• Business model<br>• Quality/experience of management<br>• Identify catalyst for re-rating | • Market cap and liquidity<br>• Financial risk<br>• Cyclicality of earnings<br>• Country risk | Target allocation ranges are determined based on a stocks potential upside versus its risk<br><br>The portfolio comprises up to 20 stocks with a maximum of 15% in any one holding |

## Process Description

### Investment Process

**Screening/ Idea Generation**

Idea generation for the Fund is primarily driven by a bottom-up research process undertaken by the Portfolio Managers. Opportunities are identified through detailed company analysis, financial statement review, industry research, and engagement with management teams. The Managers also draw on external research providers, broker reports, and global investment networks to supplement internal work and broaden the opportunity set.

The Fund does not rely on index inclusion and may invest in companies outside major benchmarks, including unlisted or soon-to-be-listed securities, where the Managers identify material mispricing. A negative ethical screen is applied to remove companies that derive operating revenues from industries considered harmful to people, animals, or the environment. Beyond this exclusionary framework, idea generation is unconstrained by sector, geography, or market capitalisation, though the Fund maintains a persistent bias toward small and mid-cap companies.

In addition, the Managers occasionally identify opportunities through corporate actions and special situations, such as mergers, acquisitions, spin-offs, or restructurings, where short-term pricing inefficiencies can create attractive entry points.

**Research/Investment Selection**

The research and investment selection process for the Pengana High Conviction Equities Fund is grounded in a bottom-up, benchmark-unaware approach. The Managers focus on detailed company-specific research rather than macroeconomic or thematic positioning. The objective is to identify companies trading at a meaningful discount to intrinsic value, with the potential to deliver strong long-term returns.

The process begins with idea generation, sourced through company reports, financial statements, management meetings, industry publications, broker research, and global investment networks. Opportunities are not restricted to index constituents and may include unlisted or soon-to-be-listed companies. In addition, the Managers monitor corporate actions and special situations, such as mergers, acquisitions, restructurings, or spin-offs, where market inefficiencies may create favourable entry points.

Following initial screening, prospective investments undergo rigorous fundamental analysis. This analysis includes an evaluation of the company's financial position, balance sheet strength, competitive advantages, industry structure, and management alignment. The Managers seek businesses with sustainable growth potential and management teams that demonstrate clear alignment with shareholders, often evidenced by meaningful equity ownership.

Valuation forms a critical component of the research process. A range of techniques are employed, including discounted cash flow modelling, relative valuation comparisons, and analysis of key performance metrics such as return on equity and free cash flow generation. The Managers emphasise the identification of businesses offering attractive risk-adjusted returns and significant upside relative to the downside risk assumed.

The Fund also applies a negative ethical screen, which excludes companies that derive revenues from industries or activities considered harmful to people, animals, or the environment. This reduces the investable universe and reflects Pengana's commitment to responsible investment practices.

Once a company has passed the research and valuation stages, the Managers determine portfolio inclusion and position sizing. Portfolio construction reflects a high-conviction approach, with typically 15–20 holdings. Position sizes are significant and reflect the level of conviction and the perceived asymmetry between risk and return. The portfolio may hold substantial levels of cash if sufficiently attractive opportunities are not identified, underscoring the flexible and unconstrained nature of the strategy.

Investment selection is ongoing, with positions actively monitored and reassessed as new information emerges. The concentrated structure ensures that each investment is material to overall Fund performance, reinforcing the importance of thorough due diligence and disciplined portfolio management.

**Portfolio Construction**

Portfolio construction for the Pengana High Conviction Equities Fund is deliberately concentrated and benchmark-unaware, with the primary objective of building a portfolio that reflects only the Managers' highest conviction ideas. The process follows directly from the detailed fundamental research and valuation work conducted on prospective investments.

The Fund typically holds between 15 and 20 positions, with no single pre-set sector or geographic limits. The Managers determine portfolio weights based on conviction level, risk-return profile, and the degree of valuation upside relative to downside risk. As a result, position sizes are often substantial, with the top ten holdings regularly accounting for more than 80% of the portfolio. This concentration reflects the strategy's focus on investing only where opportunities are considered compelling, rather than attempting to maintain diversification for its own sake.

Position sizing is determined through a qualitative and quantitative assessment of risk versus reward. Larger allocations are generally given to companies with stronger balance sheets, robust cash flow generation, aligned management, and clear valuation support. Conversely, positions with higher uncertainty or lower liquidity may be sized more conservatively. The Managers retain flexibility to adjust weights as the risk-reward dynamic evolves.

The Fund's cash allocation is an important portfolio construction tool. In the absence of attractive opportunities, the Managers are prepared to hold elevated cash levels, up to 100% of the Fund, rather than investing capital into low-conviction ideas. This flexibility can contribute to significant deviations in market exposure over time and highlights the Fund's benchmark-unaware approach.

The Fund applies a negative ethical screen, which excludes companies engaged in activities deemed harmful to people, animals, or the environment. This exclusionary framework directly impacts portfolio construction, narrowing the investable universe and ensuring all positions align with Pengana's responsible investment principles.

The Managers monitor portfolio exposures on an ongoing basis to ensure that overall risk is consistent with the strategy's objectives. While there are no strict sector or regional allocation targets, the portfolio has historically demonstrated a persistent bias toward small and mid-cap companies, often in healthcare, materials, and technology, while maintaining lower exposure to financials. Currency exposures are not hedged, reflecting the global nature of the portfolio and the Managers' willingness to accept foreign exchange as part of the investment return profile.

In summary, portfolio construction is highly conviction-led, concentrated, and unconstrained by benchmarks. The emphasis on meaningful position sizes, flexible cash management, and ethical screening results in a portfolio that is differentiated from traditional global equity funds and heavily dependent on the judgment and expertise of the investment team.

**Sector Allocation**

| Equity Sector Profile | Weight (Long) | Benchmark | Active |
|---|---|---|---|
| **Financials** | 0.00% | 17.07% | -17.07% |
| **Information Technology** | 3.85% | 26.15% | -22.31% |
| **Health Care** | 34.46% | 9.53% | +24.93% |
| **Consumer Discretionary** | 2.98% | 10.11% | -7.14% |
| **Consumer Staples** | 0.00% | 5.98% | -5.98% |
| **Energy** | 0.00% | 3.47% | -3.47% |
| **Materials** | 54.08% | 3.22% | +50.87% |
| **Industrials** | 0.00% | 11.39% | -11.39% |
| **Communication Services** | 0.00% | 8.46% | -8.46% |
| **Utilities** | 0.00% | 2.62% | -2.62% |
| **Real Estate** | 0.00% | 2.00% | -2.00% |
| **Cash** | 4.63% | 0.00% | +4.63% |

**Top 5 Holdings***

| Ticker | Holding | Sector | Weight % | Country |
|---|---|---|---|---|
| MTM | MTM Critical Metals Limited | Materials | 17.0% | AUS |
| IPX | Iperionx Ltd. Sponsored ADR | Materials | 16.5% | US |
| IPX | Iperionx Ltd. | Materials | 11.8% | AUS |
| BRE | Brazilian Rare Earths Limited | Materials | 8.8% | AU |
| CU6 | Clarity Pharmaceuticals Ltd. | Health Care | 7.9% | AU |

* As reported to SQM on the return of the RFI – holdings will change over time.

### Sell Discipline

The Fund's sell discipline is grounded in a continuous reassessment of each holding's risk-reward profile. Positions are reduced or exited if the original investment thesis is no longer valid, valuation targets have been met, or new information materially alters the risk outlook. The Managers will also sell if stronger opportunities emerge that offer superior prospective returns, reflecting the concentrated nature of the portfolio. Liquidity considerations are taken into account when adjusting or exiting positions. The disciplined approach ensures that capital is consistently allocated to the Fund's highest conviction ideas.

### Risk Management

Risk management within the Fund is primarily embedded in the investment selection and portfolio construction process. At the security level, the Managers focus on companies with strong balance sheets, sustainable cash flows, and management alignment, which reduces financial and operational risk. Valuation discipline and ongoing monitoring further ensure that investments continue to offer attractive risk-adjusted returns.

At the portfolio level, risk is managed through concentration in high-conviction positions, balanced against diversification across sectors and geographies where appropriate. Position sizes are actively reviewed in line with conviction and liquidity considerations. The Fund does not employ leverage and may hold elevated levels of cash when suitable opportunities are limited.

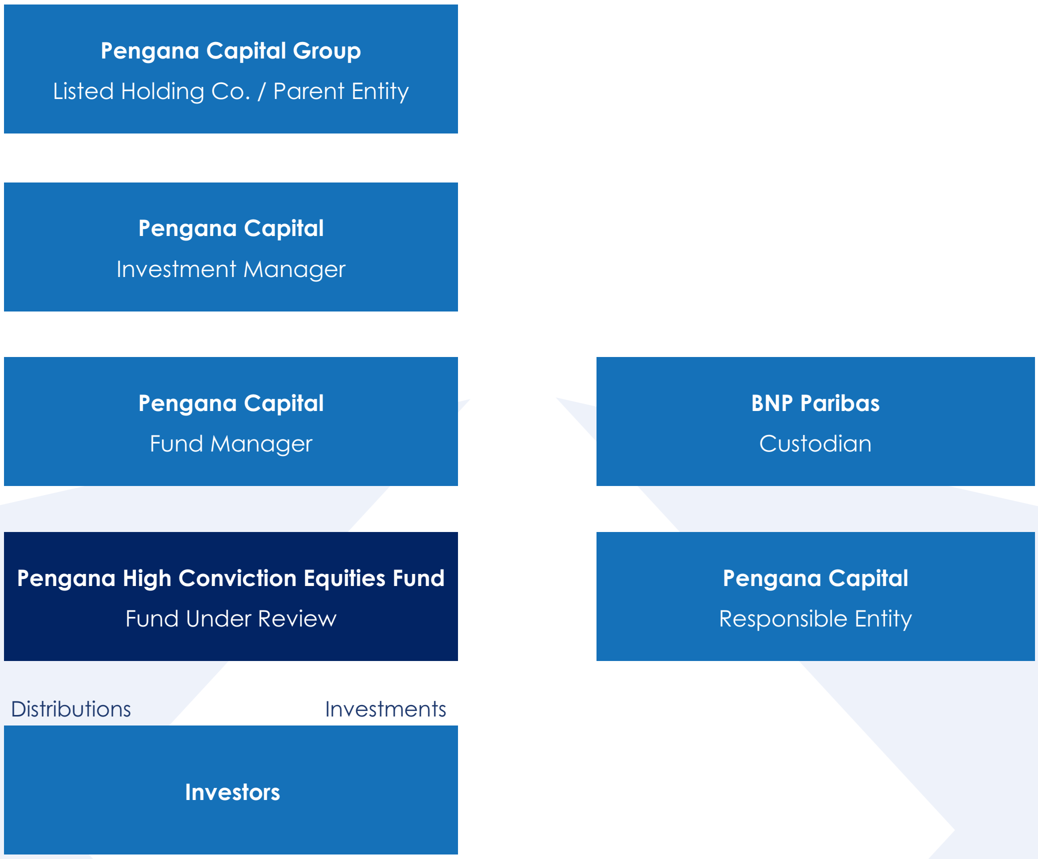
The Fund does not hedge foreign currency exposures, accepting FX movements as part of the return profile. Derivatives are not used for leverage but may occasionally be employed to manage exposures or enhance execution efficiency.

Oversight of risk management rests with Pengana Capital Limited's compliance and governance framework, which includes Board-level supervision, internal risk reviews, and adherence to the Fund's constitution and AFSL obligations. SQM Research considers the risk management framework effective, albeit reliant on the discipline and judgement of a small investment team.

The table below outlines limits on the Fund's asset allocation and other risk parameters:

| Fund Constraints and Risk Limits | Permitted Range or Limit |
|---|---|
| **Maximum number of securities** | 20.00 |
| **0%-100% cash and cash equivalents** | 100% |
| **0%-100% Australian and global securities** | 100% |
| **Maximum exposure to single security** | 30.00% |
| **Maximum exposure to single stock/company** | N/A |
| **Maximum exposure to single sector** | Healthcare 50%<br>IT 30%<br>Industrials 30%<br>Financials 30%<br>Consumer Discretionary 30%<br>Communications 30%<br>Consumer Staples 30%<br>Materials 50%<br>Utilities 30%<br>Real Estate 30%<br>Energy 0% |
| **Maximum exposure to a single country** | USA 60%<br>UK and Japan 30% |
| **Maximum exposure to geographic region** | Other Developed and Korea 20%<br>Emerging Markets Total 20% |

## Key Counterparties




## Governance

### 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 the Manager and associated key counterparties are appropriately qualified to carry out their assigned responsibilities. Management risk is rated as modest.***

## Management & People

| Name | Responsibility / Position | Location | Years at Firm | Years in Industry |
|---|---|---|---|---|
| James McDonald | Portfolio Manager | Sydney | 22.0 | 28.0 |
| Jeremy Bendeich | Portfolio Manager | Sydney | 4.0 | 31.5 |

## Staffing Changes

| Departures | | | |
|---|---|---|---|
| **Date** | **Name** | **Responsibility** | **Reason for Departure** |
| 12-Dec-23 | Hansheng Zhang | Investment Analyst | Employee resignation |

| Additions | | | |
|---|---|---|---|
| **Date** | **Name** | **Position / Responsibility** | **Previous Position / Employer** |
| | | None | |

***SQM Research observes that the levels of investment experience and company tenure are strong across the investment team. The size and nature of staff turnover are not an issue of concern, in SQM's view.***

| Fees and Costs | Fund (Class A) | Fund (Class B) | Peer Avg** |
|---|---|---|---|
| Management Fee % p.a. | 1.99% | 1.25% | 1.08% |
| Expense Recovery/Other Costs % p.a. | – | – | – |
| Performance Fee % | 15.38% | 20.00% | 6.41% |
| Total Cost Ratio TCR % p.a. | 1.99% | 3.84% | 1.22% |
| Buy Spread %* | 0.25% | 0.25% | 0.19% |
| Sell Spread %* | 0.25% | 0.25% | 0.19% |

* This spread is the difference between the Fund's application price and withdrawal price and reflects transaction costs relating to the underlying assets.

** Peer average is based on data provided by SQM's data provider. SQM is not responsible for any errors or omissions. The peer group average Performance Fee includes those that do not charge a performance fee i.e. (0%). SQM observes that funds that charge a performance fee tend to charge a lower management fee than those that do not.

## Management Fee

The management fee includes GST and is net of any applicable Reduced Input Tax Credits (RITC). The Management Fee includes the Responsible Entity fees as well as the investment manager fees.

## 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 the 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 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 91 basis points higher than the peer group average of 1.08%. The TCR (or Total Cost Ratio) of the Fund is 77 bps higher than the peer group average of 1.22%, this is due to the exceptional outperformance in recent times.***
- ***For 'Class B' units: The Fund management fee is 17 basis points higher than the peer group average of 1.08%. The TCR (or Total Cost Ratio) is 3.84%, which is 262 basis points higher than the peer group average of 1.22%, this is due to the exceptional outperformance in recent times.***
- ***The performance fees (as a % of outperformance), 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 slightly low (considering the cash rate) and, therefore, easier to achieve. Consequently, in certain years, depending on market conditions (returns), the performance fees can be significantly higher than the peer average.***

For analytical purposes, the data for the Class A units is being used below

| Risk/Return Data to 31 August 2025 | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Total Return** | **1-Month** | **3-Month** | **6-Month** | **1-Year** | **3-Year** | **5-Year** | **Inception** |
| Fund | 1.22 | 47.00 | 27.15 | 35.40 | 41.39 | 22.91 | 27.64 |
| Benchmark | 0.94 | 6.60 | 5.17 | 19.92 | 20.35 | 15.69 | 12.97 |
| Peer Average | 1.38 | 5.91 | 6.53 | 17.11 | 16.62 | 12.11 | 9.81 |
| Alpha | 0.28 | 40.40 | 21.97 | 15.48 | 21.04 | 7.22 | 14.67 |
| **Metrics** | | | | **1-Year** | **3-Year** | **5-Year** | **Inception** |
| Tracking Error (% p.a.) - Fund | | | | 36.64 | 27.49 | 23.00 | 25.25 |
| Tracking Error (% p.a.) - Peer Average | | | | 7.16 | 7.49 | 8.51 | 7.13 |
| Information Ratio - Fund | | | | 0.42 | 0.77 | 0.31 | 0.58 |
| Information Ratio - Peer Average | | | | -0.68 | -0.62 | -0.48 | -0.04 |
| Sharpe Ratio - Fund | | | | 0.76 | 1.20 | 0.76 | 0.95 |
| Sharpe Ratio - Peer Average | | | | 1.04 | 0.96 | 0.69 | 0.58 |
| Volatility - Fund (% p.a.) | | | | 40.90 | 31.21 | 27.07 | 26.96 |
| Volatility - Peer Average (% p.a.) | | | | 11.56 | 13.06 | 14.11 | 13.43 |
| Volatility - Benchmark (% p.a.) | | | | 10.19 | 10.66 | 11.16 | 11.19 |
| Beta based on stated Benchmark | | | | 2.09 | 1.46 | 1.32 | 0.86 |

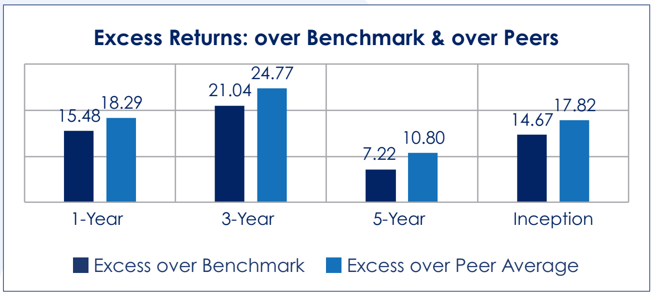
Distributions reinvested. Returns beyond one year are annualised. Return history starts Jan-2015

Benchmark: MSCI World NR AUD

## Quantitative Insight[1]

Note: Unless otherwise stated, all return and risk data reported in this section are <u>**after-fees**</u> and for **periods ending Aug-2025.**

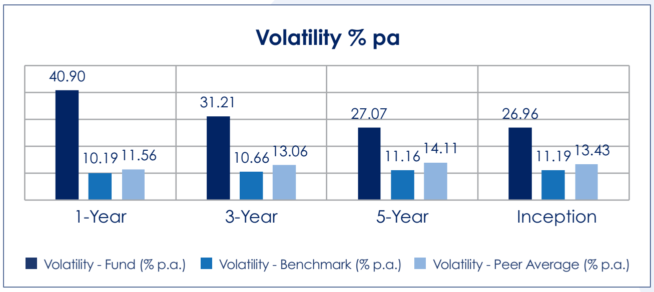
### Excess Returns (Alpha)




The Fund has displayed strong performance across all periods when compared with benchmark and peers.

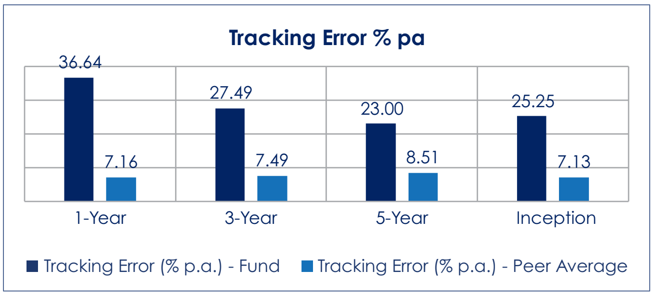
The **return outcomes,** as described above, are substantially above the PDS objective and exceed SQM's expectations for the Fund relative to its fee level and volatility.

### Risk




The Fund's <u>**volatility**</u> (annualised standard deviation of monthly returns) has tended to be higher than the benchmark and peers.

[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




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

The **risk outcomes**, as described above regarding volatility and tracking error, are in line with the PDS statements about risk and are consistent with SQM's expectations for this Fund. The volatility nature of the fund reflects the concentrated nature of the fund and it exposure to earlier-stage businesses.

### Drawdowns

| Drawdown Summary | | | |
|---|---|---|---|
| **Drawdown Size (peak-to-trough)** | | | |
| | **Fund** | **Bench** | **Peers** |
| Average | -11.24% | -4.90% | -7.73% |
| Number | 14 | 18 | 16 |
| Smallest | -0.05% | -0.87% | -0.67% |
| Largest | -32.06% | -15.95% | -26.63% |
| **Length of Drawdown (in months)** | | | |
| | **Fund** | **Bench** | **Peers** |
| Average | 7.5 | 5.2 | 7.2 |

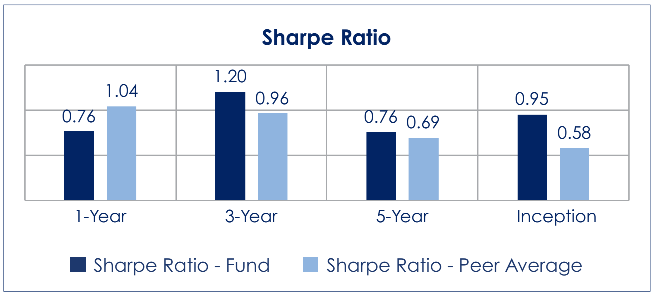
Length of Drawdown = time from peak to trough and back to the previous peak level

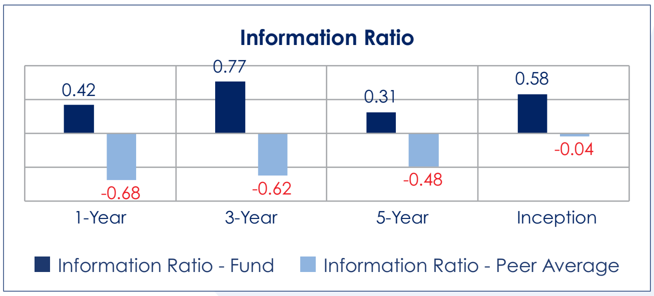
**Average** drawdowns have been worse than the benchmark and modestly worse than the peer average.

### Upside/Downside Capture

| | Downside Capture | | Upside Capture | |
|---|---|---|---|---|
| | 3 years | Inception | 3 years | Inception |
| **Fund** | 90.8% | 0.1% | 171.5% | 118.2% |
| **Peer Average** | 111.8% | 106.4% | 92.8% | 92.1% |

### Risk-Adjusted Returns




The Fund's risk-adjusted returns (as measured by Sharpe and Information ratios) have been better than the peer average.

### Correlation of Fund to Asset Classes

| Market | 3 years | Inception | Market Indexes |
|---|---|---|---|
| Aust Bonds | +29.3% | +26.7% | Bloomberg AusBond Composite 0+Y TR |
| Aust Equity | +43.4% | +35.7% | S&P/ASX 300 TR |
| Global Bonds | +31.2% | +30.0% | Bloomberg Global Aggregate Hdg AUD |
| Global Equity | +49.6% | +35.3% | MSCI World Ex Australia NR AUD |

### Correlation Key

| Low | High | Description |
|---|---|---|
| 0% | 20% | low, weak |
| 20% | 40% | modest, moderate |
| 40% | 70% | significant, material |
| 70% | 90% | strong, high |
| 90% | 100% | substantial |

### 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 Aug-25**

| Rank | Date | Market | Fund | Difference |
|---|---|---|---|---|
| 1 | Mar-20 | -20.83% | -17.66% | +3.17% |
| 2 | Jun-22 | -8.97% | -6.85% | +2.11% |
| 3 | Feb-20 | -7.76% | -3.14% | +4.62% |
| 4 | Aug-15 | -7.70% | +1.73% | +9.43% |
| 5 | Jan-22 | -6.45% | -4.94% | +1.51% |
| 6 | Sep-22 | -6.29% | -9.23% | -2.94% |
| 7 | Oct-18 | -6.16% | -7.81% | -1.66% |
| 8 | Jan-16 | -5.45% | -0.05% | +5.40% |
| 9 | Jun-15 | -5.32% | +6.74% | +12.06% |
| 10 | Oct-23 | -3.80% | -7.91% | -4.11% |
| **Totals** | | **-78.74%** | **-49.13%** | **+29.61%** |

| | | | **No. of Months** |
|---|---|---|---|
| **Correlation** | +64.2% | Positive Return | 2 |
| **Capture** | +62.4% | Outperform | 7 |

### Tail Risk Observations:

The data in the table above indicate that the Fund displays moderate **defensive characteristics** in the face of extreme Australian equity tail risk.

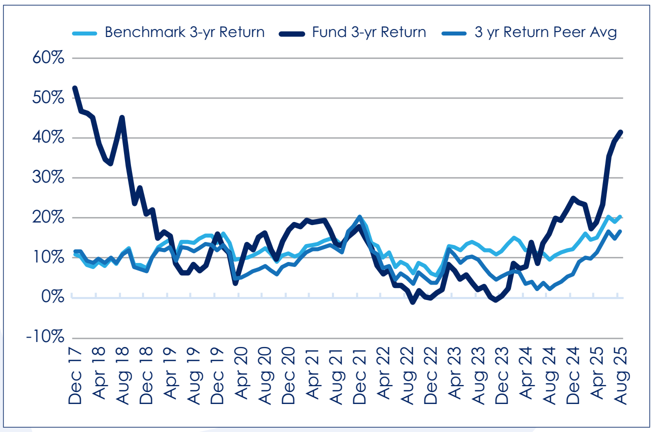
### Annual Returns

| Year | Fund | Benchmark | Peer Avg | vs. Bench | vs. Peers |
|---|---|---|---|---|---|
| **2015** | +113.48 | +11.50 | +10.96 | **+101.99** | **+102.53** |
| **2016** | +43.90 | +8.02 | +10.03 | **+35.88** | **+33.86** |
| **2017** | +15.17 | +13.32 | +14.62 | **+1.85** | **+0.55** |
| **2018** | +7.18 | +1.42 | -2.83 | **+5.76** | **+10.01** |
| **2019** | +26.50 | +27.86 | +28.20 | **-1.36** | **-1.69** |
| **2020** | +18.34 | +5.58 | +12.01 | **+12.75** | **+6.33** |
| **2021** | +9.20 | +29.29 | +24.10 | **-20.09** | **-14.90** |
| **2022** | -22.91 | -12.24 | -18.25 | **-10.67** | **-4.66** |
| **2023** | +20.56 | +23.03 | +17.81 | **-2.47** | **+2.75** |
| **2024** | +109.22 | +30.78 | +23.65 | **+78.43** | **+85.57** |
| **Aug-25** | +12.04 | +7.63 | +7.69 | **+4.41** | **+4.35** |

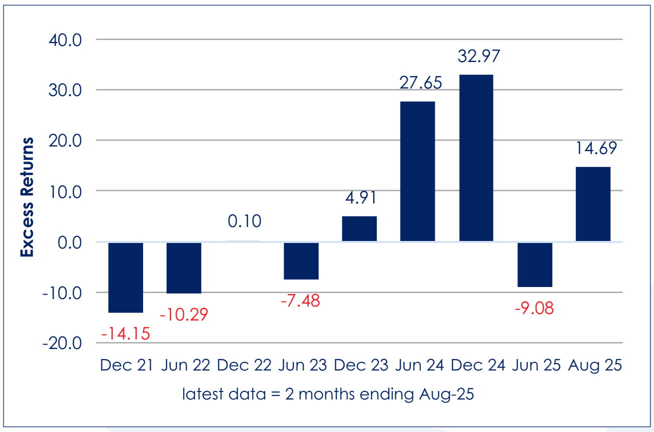
**2025 data = 8 months ending Aug-25**

## Return and Risk

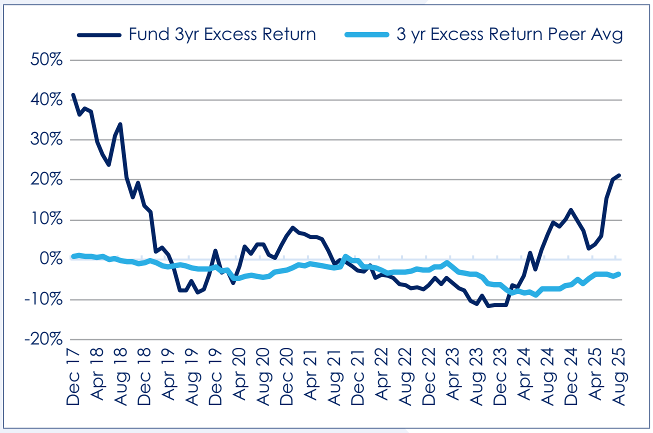
### Rolling Returns



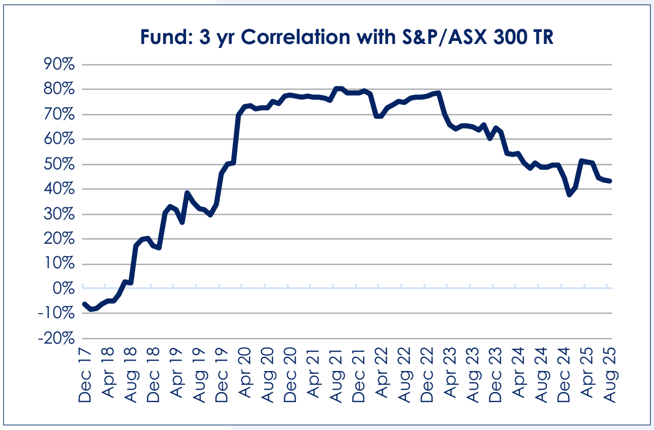

### Fund Excess Return Half Yearly



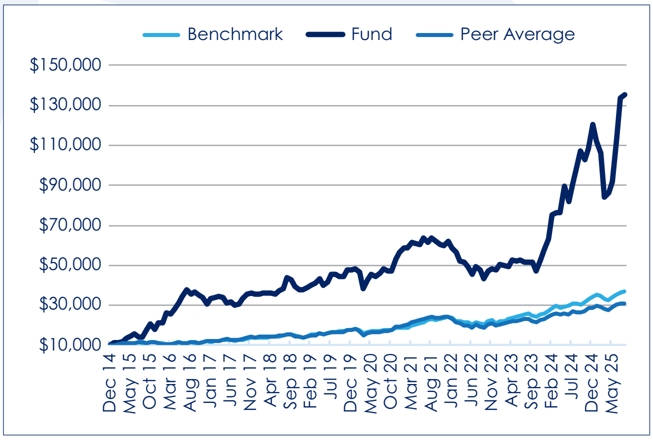

### Rolling Excess Returns



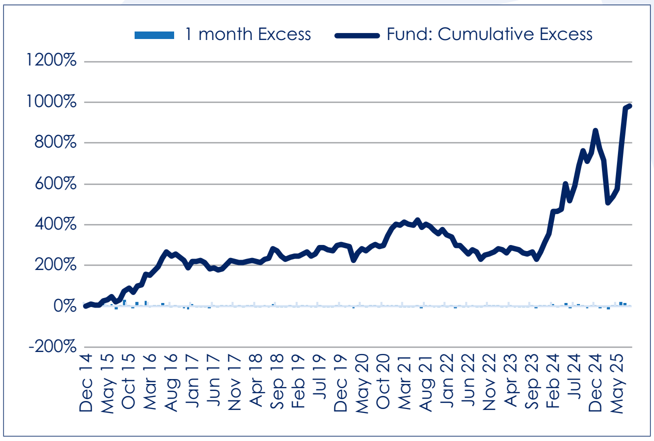

### Rolling Correlation




### Growth of $10,000

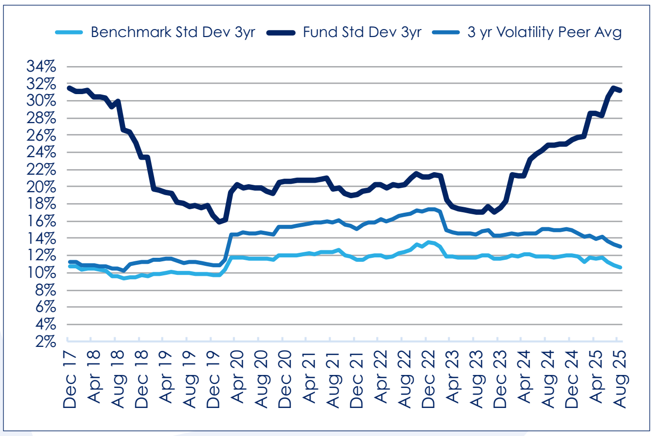



### Cumulative Excess Returns

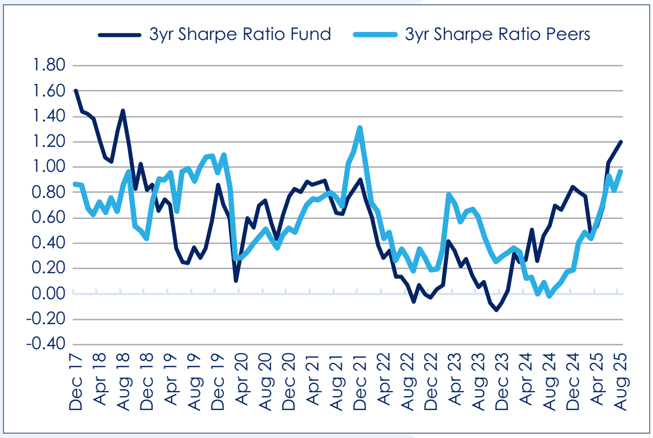


## Return and Risk

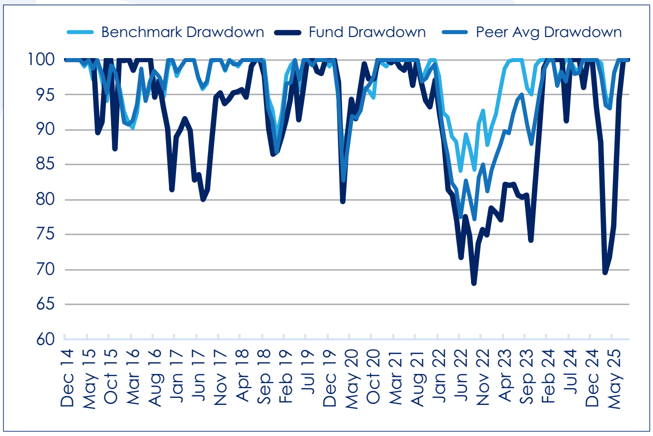
### Rolling Volatility




### Rolling Sharpe Ratio




### Drawdowns



**Drawdown**

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.

**Alpha**

SQM defines **Alpha** as the excess return compared to the Benchmark and is calculated as

Alpha = Fund Return – Benchmark Return

**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 a 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 Fund's taxable income for that year.

If the total distributions a Fund pays out exceed 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 that a Fund will make a distribution in any distribution period.

**Total Cost Ratio (TCR)**

Managed Investment Schemes: The TCR for Managed Investment Schemes, Exchange Traded Products, and Investment Bond funds is an addition of the Investment Management Fees and Costs (including admin fees), Performance Fee Costs, and the impact of dollar-based fees.

Superannuation funds: The TCR for Superannuation and Pension funds is an addition of the Investment Management Fees and Costs (including admin fees), Performance Fee Costs, Administration Fees and Costs, the impact of dollar-based fees and a deduction of Super OTC Derivative Costs.

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