

# PENGANA CAPITAL GROUP

Interim Results  
For the period to 31 December 2019

Russel Pillemer  
Chief Executive Officer

Katrina Glendinning  
Chief Financial Officer



# TABLE OF CONTENTS

1 **Overview**

2 **H1 2020 Results**

3 **H1 2020 Highlights**

4 **Focus for FY 2020**





1 **Overview**

# Our Philosophy

**We aim to generate superior long term returns with focus on capital preservation**

- Leading provider of premium products
- Benchmark-unaware mandates; we don't aim to "beat the market" over the short-term
- Proven long-term performance over multiple funds
- Impose capacity limits across our strategies
- Focused on the higher end retail market; SMSF's, advisors and HNW's
- Robust and scalable institutional infrastructure and separation of duties
- Ability to attract and retain exceptional funds management teams
- Unique funds management business
- FUM of circa \$3.1 billion



# Funds Under Management <sup>1</sup>

Reduction in FUM exacerbated by uncharacteristically high distribution payments of \$115m

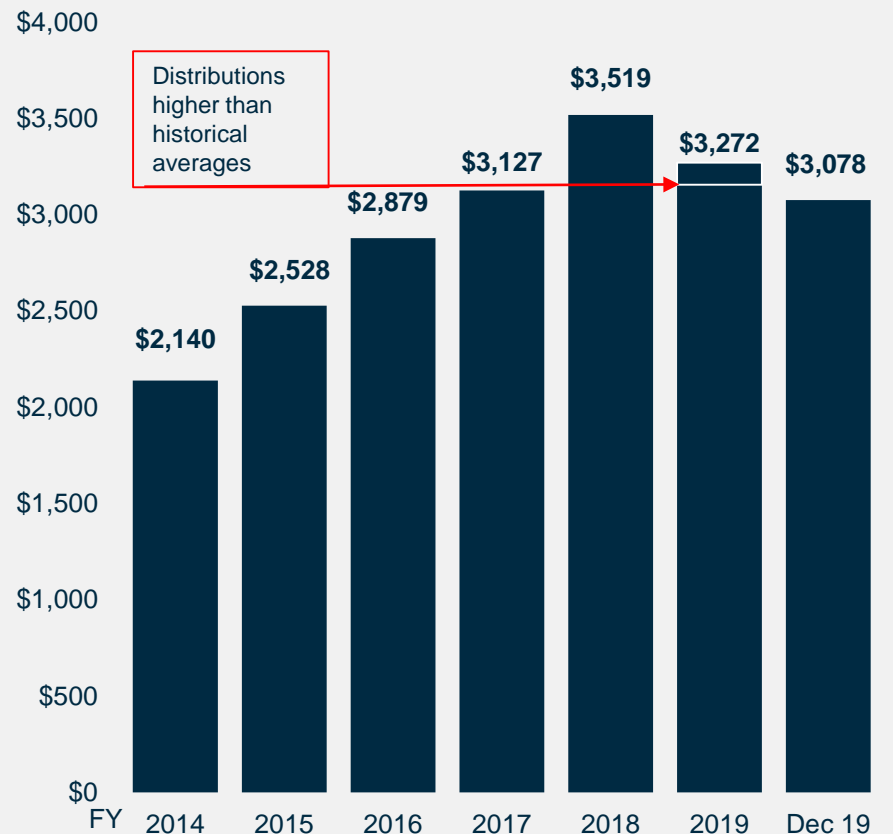
Growth from investment performance at \$186m for the six months offset by outflows of \$265m

Current bull market environment has been unfavourable for active fund managers with a quality bias

- both on an absolute and relative basis
- struggled to outperform indices that have run hard and fast, often driven by one single sector

Well placed to raise additional FUM when markets revert to normalised conditions

Historical Growth in FUM (\$m)<sup>2</sup>



1. The amount of funds under management can increase or decrease due to a range of factors including net fund flows, distributions to investors and investment performance. Past performance is not a reliable indicator of future performance. The reported FUM is prior to any distributions and dividends being paid to investors.

2. Combined Pengana and Hunter Hall FUM.

# Diversified Range of Funds <sup>1</sup>

Acronym	Primary Fund Name	Strategy	Strategy FUM at 31/12/19 (\$m)	Management Fee; Performance Fee (Primary Fund) <sup>2</sup>
PAEF	Pengana Australian Equities	Australian Multi-caps	1,012	1.0%; 10% <sup>3</sup>
PECF	Pengana Emerging Companies	Australian Small-caps	813	1.3%; 20% above ASX Small Ords
PIF	Pengana International Fund	Global Multi-caps	501	0.97%; N/A
PIA	Pengana International Equities Ltd (LIC)	Global Multi-caps	327	1.2%; 15% above MSCI World
PE1	Pengana Private Equity	Private Equity	219	1.25%; 20% above 8%
PGSC	Pengana Global Small Companies	Global Small-caps	119	1.3%; 20% above MSCI AC World SMID
WHEB	Pengana WHEB Sustainable Impact	Global Impact Investing	47	1.32%; N/A
HCT	Pengana High Conviction Equities	High Conviction	24	1.76%; 15% above RBA Cash + 3% p.a.
PAEIF	Pengana Australian Equities Income	Australian Multi-caps	16	0.7%; 10% above 0%

1. The amount of funds under management can increase or decrease due to a range of factors including net fund flows, distributions to investors and investment performance. Past performance is not a reliable indicator of future performance.
2. Fees are expressed excluding GST as this reflects the fees that PCG will receive.
3. Performance fee changed during FY2019 from 10% subject to a hurdle of RBA Cash Rate to: 10% subject to a hurdle of RBA Cash Rate + 6% p.a.

# Funds Under Management <sup>1</sup>

Australian strategies account for 60% of FUM; was 64% at 31/12/18

International strategies expected to be the dominant segment within the medium term

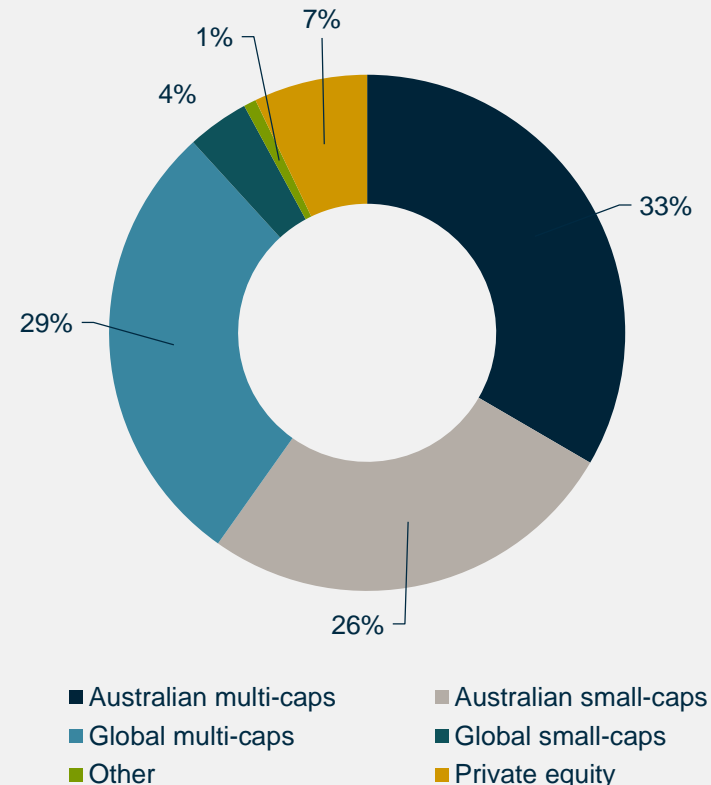
Significant further capacity in various International Equities strategies, including:

- PIF: >\$6bn
- PGSCF: >\$700m
- WHEB: ~\$700M
- Others: >1bn

Substantial growth opportunity for Pengana Private Equity Trust

- Current FUM of ~\$220m
- Strong demand; trading at a premium to NAV
- Large capacity potential
- Secondary raising to raise up to \$473.2 million

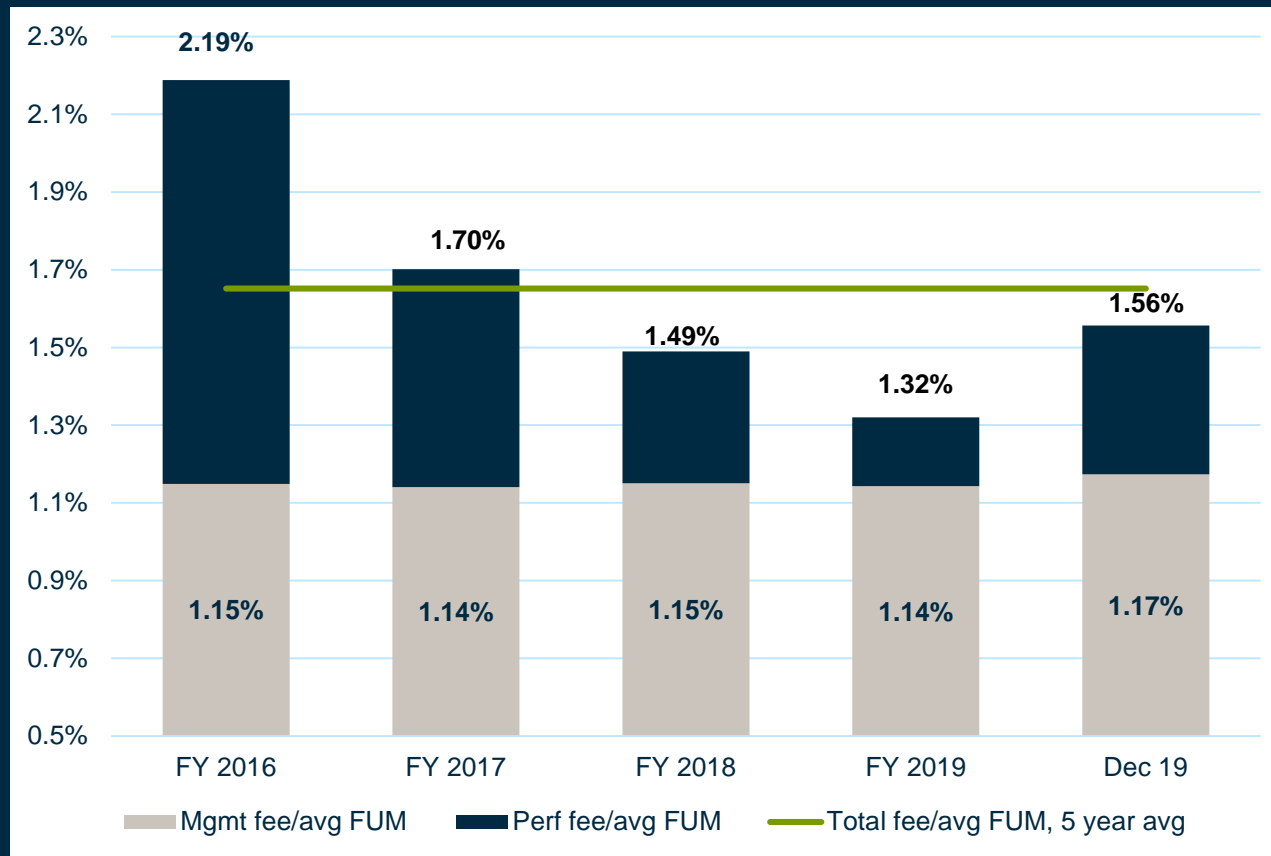
FUM Strategy Breakdown (31/12/2019)



1. The amount of funds under management can increase or decrease due to a range of factors including net fund flows, distributions to investors and investment performance. Past performance is not a reliable indicator of future performance.

The reported FUM is prior to any distributions and dividends being paid to investors.

# Annual Fee Margin FY 2016 to H1 FY 2020



**Performance fees fluctuate over relatively short periods**  
**Over the longer term, we expect a reversion to the mean**



2 **H1 2020 Results**



# Pengana Capital Group Underlying Profit After Tax<sup>1</sup>

Pengana Capital Group Operating EBITDA (\$'000)	Dec 2019	Dec 2018
Management fee revenue	19,412	19,361
Performance fee revenue	5,477	3,199
Net fund direct expenses	(1,787)	(1,762)
Operating expenses	(8,171)	(9,108)
Team profit share	(8,594)	(7,548)
Eliminate outside equity interest	-	(4)
<b>Operating EBITDA<sup>1</sup></b>	<b>6,337</b>	<b>4,138</b>
Interest and investment income distributions	449	352
Financing costs	(136)	-
Interest on loan funded share plan	1,201	1,094
<b>Underlying profit before tax<sup>2</sup></b>	<b>7,851</b>	<b>5,584</b>
Basic earnings per share on underlying profit after normalised tax at 27.5%— cents per share <sup>3</sup>	5.28	3.94

1. Source: Pengana Management Accounts

2. Source: Pengana Management Accounts

3. Calculated on 107,888,236 shares (i.e. the weighted average number of all shares on issue including treasury shares) (2018: 103,277,160 shares)

# Pengana Capital Group Statutory Profit After Tax

	Dec 2019	Dec 2018
<b>Pengana Capital Group Operating EBITDA (\$'000)</b>		
<b>Underlying profit before tax<sup>1</sup></b>	<b>7,851</b>	<b>5,584</b>
<b>Add: Items excluded from underlying profit</b>		
Non-cash amortisation and impairment	(1,446)	(1,593)
New product development	(277)	(588)
Acquisitions and restructuring	(2)	(139)
Non-operating income and expenses	25	(316)
Realised/unrealised fair value changes in investments	(38)	(141)
<b>Less: Items not included in Audited Annual Report</b>		
Interest on Loan Funded Share Plan	(1,201)	(1,094)
<b>Statutory profit before tax attributable to Pengana shareholders</b>	<b>4,912</b>	<b>1,713</b>
Tax	(1,656)	(778)
<b>Statutory profit after tax attributable to Pengana shareholders<sup>2</sup></b>	<b>3,256</b>	<b>935</b>
Basic earnings per share on statutory profit after tax – cents per share	3.86	1.18

1. Source: Pengana Management Accounts

2. As per Pengana Capital Group Limited 31 December 2019 Interim Report

3. Calculated on 84,379,505 shares (i.e. the weighted average number of shares on issue excluding treasury shares) (2018: 79,544,448 shares)

# Pengana Capital Group Balance Sheet<sup>1</sup>

Pengana Capital Group Balance Sheet (\$'000)	Dec 2019	June 2019
Cash net of AFSL cash requirements	10,960	10,346
Current receivables	9,049	5,188
Current liabilities	(10,348)	(8,432)
<b>Net working capital</b>	<b>9,661</b>	<b>7,102</b>
Investments net of AFSL liquid asset requirements	10,677	9,163
AFSL capital requirements	6,200	8,200
Loans (on and off-balance sheet)	32,852	30,269
Other assets	1,989	1,501
Borrowings	(4,375)	(5,000)
Other non-current liabilities	(1,099)	(1,087)
<b>Total non-current assets and liabilities</b>	<b>46,244</b>	<b>43,046</b>
<b>Net tangible assets<sup>2</sup></b>	<b>55,905</b>	<b>50,148</b>
Less: Off balance sheet Loan Funded Share Plan	(31,960)	(29,395)
Add: Intangibles	64,183	65,455
Add: Deferred tax	(5,600)	(5,766)
Add: Right of use assets and lease liabilities	(14)	-
<b>Net Assets as per Financial Statements<sup>3</sup></b>	<b>82,514</b>	<b>80,442</b>

1. Source: Pengana Management Accounts

2. Source: Pengana Management Accounts

3. As per Pengana Capital Group Limited 31 December 2019 Interim Report



3

# H1 2020 Highlights

## Period to 31 December 2019 in review

- Increased profitability with the return of performance fees
- Announcement of the proposed Pengana Private Equity Trust (ASX:PE1) Secondary Raising
- Further development of our international equity capabilities
- Business restructuring to increase sales
- Acquisition of stake in Lizard Investors, with US expansion plans
- Terms agreed for acquisition of fast growing Israeli fund JV, with >\$30m of FUM
- New fund seeding – to be announced in March

# Acquisition of Stake in Lizard Investors LLC



- Chicago-based asset management firm specialising in global small to mid-cap equities with strong long term track record
- Builds on a long term relationship with founder Leah Zell, a pioneer in Global small cap investing
- Since 2015, Lizard has been sub-advisor on the Pengana Global Small Companies Fund
- Synergistic premium funds management business with growth opportunities and a highly sophisticated investor base
- US market for global small offerings are particularly attractive, with strong demand and limited supply of high quality managers with long term track records
- Platform for growth of Pengana into the US market via small-cap as well as other potential offerings

4 **Focus for FY 2020**





# Pengana Private Equity Trust (ASX: PE1)



**Secondary Offer Opens 24/2/2020**

Seeking to raise up to \$473m

## **Aims of the Secondary Offer**

- Enable unitholders to efficiently increase their investment in PE1
- Increasing the size and liquidity of PE1
- Make sufficient new Units available to selected financial advisors in order to enable them to achieve desired allocations for their client portfolios

## **Structure**

- Entitlement Offer - open to existing PE1 Unitholders ("Existing Unitholders"), who will have the right to subscribe for 2 new Units for every 1 Unit held
- Shortfall Offer - any new Units not applied for under the Entitlement Offer will form part of the Shortfall Offer, open to Existing Unitholders who have subscribed for their full entitlement under the Entitlement Offer
- Discretionary Offer – open to other select investors. All new Units that are not applied for under the Shortfall Offer will form part of the Discretionary Offer

Offer price at the NAV per Unit at 31/1/2020 (less a special distribution of 1.25c) = \$1.37

# Pengana Private Equity Trust (ASX: PE1)



## Secondary Offer

Approval gained to raise 328,556,154 units at \$1.37 per unit

### Benefits to existing investors

- Ability to increase their investment in PE1, without having to buy on-market
- Increased size of PE1 which could result in increased liquidity for their holdings
- Increased breadth of the investor base which could result in increased demand for Units
- A Loyalty Benefit Program entirely paid for by Pengana.

### Proposed Loyalty Benefit Program

- A unique innovation for existing investors who retain their PE1 investment for four months after the offer closing date (“Eligible Investors”)
- An additional allocation of 1% Loyalty Units in the Trust for every \$100 million raised under the Secondary Offer
- Eligible Investors will benefit proportionate to their current holding

“The net impact of the additional PE1 raising is expected to be highly EPS and value accretive for PCG shareholders”

# Pengana Private Equity Trust (ASX: PE1)



## Impact of PE1 on PCG earnings

- The Trust has the potential to be a significant contributor to PCG's profitability
  - Profit contribution from base management fees estimated at 85-90 bps per annum
  - Potential profit contribution from annual performance fees (not likely to be before year 2), of 20% of excess returns<sup>1</sup> over 8.0%.
- Cost of current Secondary raising of circa 4.5% of amount raised
  - Highly EPS and value accretive due to substantial fee margin
- Potential for substantial further growth over the coming years

NAV <sup>4</sup>	Annual Base Fee Profit Contribution (at 85bps)	Potential Annual Performance Fee Profit Contribution at Return of <sup>2</sup> :				Potential Annual Total Profit Contribution at Return of <sup>2</sup> :			
		8%	11%	14%	17%	8%	11%	14%	17%
At \$200m	\$1.7m	0	\$1.2m	\$2.4m	\$3.6m	\$1.7m	\$2.9m	\$4.1m	\$5.3m
Example: at \$500m	\$4.3m	0	\$3.0m	\$6.0m	\$9m	\$4.3m	\$7.3m	\$10.3m	\$13.3m
<i>For each additional \$100m</i>	<i>+\$0.9m</i>	<i>0</i>	<i>+\$0.6m</i>	<i>+\$1.2m</i>	<i>+\$1.8m</i>	<i>+\$0.9m</i>	<i>+\$1.5m</i>	<i>+\$2.1m</i>	<i>+\$2.7m</i>

***“The net impact of PE1 raising is expected to be highly EPS and value accretive for PCG shareholders”***

1. Net returns of the Trust before charging Pengana's performance fee. The calculation of potential annual performance fee profit contribution assumes no prior accrued negative performance fee accruals resulting from prior underperformance.  
 2. These quoted returns are not forecast returns. We have merely listed potential profit contributions in the event the Trust was to derive the listed returns. As such, the listed returns are merely provided for illustrative purposes only.

# International Equities Strategy

## Pengana International Fund performance since inception to 31 December 2019<sup>1</sup>

- ✓ Return since inception 10.6%<sup>2</sup> vs MSCI ACWI<sup>3</sup> of 10.9%
- ✓ Generated index like returns while underweight the key driver of the market - large cap US tech stocks
- ✓ Attracting increased support from key gatekeepers

	Portfolio average weight	Index <sup>4</sup> average weight	Portfolio return <sup>5</sup>	Index return <sup>5</sup>
<b>Region</b>				
Europe ex UK	29.71%	14.85%	14.64%	9.03%
US	42.30%	56.92%	17.68%	14.80%
<b>Sector</b>				
Consumer Staples	11.24%	8.42%	12.87%	8.74%
Materials	14.19%	5.12%	5.75%	9.42%
IT	8.81%	14.65%	34.33%	25.30%
Financials	14.09%	17.76%	23.94%	8.81%
<b>Market Cap</b>				
USD 5bn - 10bn	14.44%	7.86%	19.18%	1.83%
>100bn USD	19.58%	35.49%	15.57%	18.46%

Source: Pengana and Bloomberg

1. Net performance figures are shown after all fees and expenses, and assume reinvestment of distributions. Past performance is not a reliable indicator of future performance, the value of investments can go up and down
2. Inception 1<sup>st</sup> July 2015.
3. MSCI ACWI refers to MSCI All Country World Total Return Index in AUD
4. MSCI ACWI
5. Annualized total return in local currency

## Focus Going Forward

- Substantial growth opportunity for Pengana Private Equity Trust
- Focus on growth in FUM for various International Equities strategies
  - Strong performance in context of aims of strategy
  - Good environment for these products
- Continued focus on advised markets and to a lesser extent on direct markets
- Evaluate acquisition opportunities whilst being highly disciplined
  - A significant number of opportunities are presenting themselves
- Selective seeding of new strategies

## Evaluating the Components

- Australian Equities, including small and multi-cap strategies ~\$2bn
  - Very strong franchises
  - Limited growth potential due to capacity constraints but high margins and potential for substantial performance fees
- International Equities multi-cap strategies ~\$0.8bn
  - Strong 5 year track record at 7/2020 and potentially good environment for growth
  - Capacity of >\$6bn
- High quality niche strategies ~\$0.2bn
  - Includes: global small-caps; impact investing; high conviction and Israel; and other strategies to be added over time
  - Average capacity of up to \$1bn per fund
  - High margin including substantial base and performance fees
- Private Equity Trust ~\$0.2bn (with expected large additional raising to be completed by 24/3/2020)
  - Substantial growth opportunity
  - Significant base and performance fee structures
- Lizard Investors LLC ~\$0.3bn
  - Strong US demand for global small –cap strategies; capacity of ~\$2bn
  - Potential to be a platform for US expansion, including for other strategies

# Disclaimer



This presentation has been prepared by Pengana Capital Group Limited (ABN 43 059 300 426) (PCG). The information in this presentation is current as at 25 February 2020.

This presentation is not an offer or invitation for subscription or purchase of securities or a recommendation with respect to any security. Information in this presentation should not be considered advice and does not take into account the investment objectives, financial situation and particular needs of an investor.

Before making an investment in PCG, any investor should consider whether such an investment is appropriate to their needs, objectives and circumstances and consult with an investment adviser if necessary. Past performance is not a reliable indicator of future performance.

PCG has prepared this presentation based on information available to it. No representation or warranty, express or implied, is made as to the fairness, accuracy, completeness or correctness of the information, opinions and conclusions contained in this presentation. To the maximum extent permitted by law, none of PCG, its related bodies corporate, its directors, employees or agents, nor any other person accepts any liability, including, without limitation, any liability arising from fault or negligence on the part of any of them or any other person, for any loss arising from the use of this presentation or its contents or otherwise arising in connection with it.

Pengana Capital Limited (ABN 30 103 800 568 AFSL 226566) is the responsible entity and issuer of the following funds referred to in this presentation: Pengana Emerging Companies Fund (ARSN 111 894 510), Pengana Affinity Equity Fund (ARSN 168 708 610), Pengana Australian Equities Fund (ARSN 146 346 929), Pengana International Fund (ARSN 610 351 641), Pengana Global Small Companies Fund (ARSN 604 292 677) and Pengana Absolute Return Asia Pacific Fund (ARSN 145 116 810). The product disclosure statements for these funds are available on the Pengana website via [www.pengana.com](http://www.pengana.com). Any potential investor should read the relevant product disclosure statement in its entirety and consult their financial adviser before making an investment decision. Past performance is not a reliable indicator of future performance.

Pengana Investment Management Limited (ABN 69 063 081 612 AFSL 219462) ("PIML") is the responsible entity and issuer of the following funds referred to in this presentation: Pengana WHEB Sustainable Impact Fund (ARSN 121 915 526), Pengana International Fund – Ethical (formerly Hunter Hall Value Growth Trust) (ARSN 093 079 906), Pengana International Fund – Ethical Opportunity (formerly Hunter Hall Global Equities Trust) (ARSN 098 586 282), Pengana Australian Equities Income Fund (formerly Hunter Hall Australian Value Trust) (ARSN 098 586 586) and Pengana High Conviction Equities Fund (formerly Hunter Hall High Conviction Equities Trust) (ARSN 602 546 332). The product disclosure statements for these funds are available on the Pengana website via [www.pengana.com](http://www.pengana.com). Any potential investor should read the relevant product disclosure statement in its entirety and consult their financial adviser before making an investment decision. Past performance is not a reliable indicator of future performance.

PIML is the manager of Pengana International Equities Limited (ASX: PIA). Before making an investment in PIA, any investor should consider whether such an investment is appropriate to their needs, objectives and circumstances and consult with an investment adviser if necessary. Past performance is not a reliable indicator of future performance.

THANK YOU



# FOR MORE INFORMATION

**PENGANA CAPITAL GROUP**  
**ABN 43 059 300 426**

Level 12, 167 Macquarie Street,  
Sydney, NSW 2000

T: +61 2 8524 9900

F: +61 2 8524 9901

E: [clientservice@pengana.com](mailto:clientservice@pengana.com)

**[PENGANA.COM](http://PENGANA.COM)**