Lonsec

Recommended

Product Review
Pengana Private Equity Trust

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About this Review

ASSET CLASS REVIEWED	ALTERNATIVES
SECTOR REVIEWED	GROWTH ALTERNATIVES (HIGH)
SUB SECTOR REVIEWED	PRIVATE EQUITY
TOTAL COMPANIES RATED	15

About this Trust

ASIC RG240 CLASSIFIED	YES
LIT REVIEWED	PENGANA PRIVATE EQUITY TRUST
TICKER	PE1
PDS OBJECTIVE	TO GENERATE OVER AN INVESTMENT HORIZON OF AT LEAST 10 YEARS ATTRACTIVE RETURNS AND CAPITAL GROWTH THROUGH A SELECTIVE AND DIVERSIFIED APPROACH TO PRIVATE MARKETS
INTERNAL OBJECTIVE	8-14% P.A. (NET) OVER AT LEAST TEN YEARS
DISTRIBUTION POLICY	SEMI-ANNUALLY
ANNUAL FEES AND COSTS (PDS)	7.4% P.A.
PERFORMANCE FEE	20% (8% P.A. HURDLE RATE NET OF RE/MANAGEMENT FEES)
RESPONSIBLE ENTITY	PENGANA CAPITAL LIMITED

Market data

MARKET CAPITALISATION	$441M
UNITS ON ISSUE	280M
UNIT PRICE (18-9-2023)	$1.58
52 WEEK HIGH/LOW UNIT PRICE	$1.80 / $1.44
NAV (31-8-2023)	$1.64
52 WEEK HIGH/LOW NAV	$1.71 / $1.56
UNIT PRICE PREM/(DISC) TO NAV	-4.17%

About the Fund Manager

FUND MANAGER	GROSVENOR CAPITAL MANAGEMENT, L.P.
OWNERSHIP	GCM GROSVENOR (NASDAQ-LISTED)
ASSETS MANAGED IN THIS SECTOR	US$53BN (30 JUNE 2023)
YEARS MANAGING THIS ASSET CLASS	24

Investment Team

PORTFOLIO MANAGER	FRED POLLOCK
INVESTMENT TEAM SIZE	173
INVESTMENT TEAM TURNOVER	LOW
STRUCTURE / LOCATION	COMMITTEE/GLOBAL

Investment process

PERMITTED INVESTMENTS	PRIVATE EQUITY, PRIVATE CREDIT, OPPORTUNISTIC INVESTMENTS AND CASH
TYPICAL NUMBER OF UNDERLYING POSITIONS	50 (HEADLINE LEVEL)
CURRENCY APPROACH	UNHEDGED
LEVERAGE	US$50M (TRUST LEVEL), CURRENTLY UNUTILISED

Trust rating history

SEPTEMBER 2023	RECOMMENDED
SEPTEMBER 2022	RECOMMENDED
OCTOBER 2021	RECOMMENDED

What this Rating means

The **'Recommended'** rating indicates that Lonsec has strong conviction the financial product can generate risk adjusted returns in line with relevant objectives. The financial product is considered an appropriate entry point to this asset class or strategy.

Scope of this rating

- Lonsec has used a holistic approach in forming an opinion on this Listed Investment Vehicle's (LIV) ability to meet its stated investment objectives. The rating model includes an assessment of the underlying investment capability in addition to the vehicle's effectiveness. When assessing the underlying investment capability Lonsec has relied upon its Managed Funds research process. Vehicle effectiveness considers a range of characteristics in combination with empirical observations.
- The rating should not be considered, or in any way interpreted, as Lonsec's forward-looking opinion or otherwise on the 'intrinsic value' of the LIV and whether Lonsec believes this to be 'overvalued' or 'undervalued' relative to the prevailing traded price.

Strengths

- Grosvenor has a strong track record in private markets spanning over 20 years and highly qualified investment team applying a thorough and robust investment process.
- Being listed on the ASX provides investors with daily liquidity for an illiquid asset class.
- The Trust is well diversified by portfolio companies, industries and regions.
- Grosvenor has developed strong relationships with GPs over time providing a good foundation for sourcing investment opportunities.

Weaknesses

- The largely closed-ended structure of the underlying co-mingled vehicles may reduce the portfolio's maneuverability.
- The dual layer of management and performance fees is very high in absolute terms, high relative to peers and particularly given the slow-paced build out of the portfolio historically.
- Related party risk stemming from the material allocation to internally managed vehicles (60% as at 31 Aug 2023).
- The LIT could be expected to be more highly correlated to the broader equity market than an unlisted private equity exposure.

Pengana Private Equity Trust

Trust Risk Characteristics

	LOW		MODERATE		HIGH
BUSINESS SUSTAINABILITY RISK			●		
CAPITAL VOLATILITY					●
CREDIT RISK					●
FOREIGN CURRENCY EXPOSURE				●	
INTEREST RATE RISK			●		
LEVERAGE RISK					●
REDEMPTION RISK			●		
SECURITY CONCENTRATION RISK			●		
SECURITY LIQUIDITY RISK					●

Risk categories are based on Lonsec's qualitative opinion of the risks inherent in the financial product's asset class and the risks relative to other financial products in the relevant Lonsec sector universe.

BIOmetrics

Aggregated risks

	1	2	3	4	5	6	7
STD RISK MEASURE							●

A Standard Risk Measure score of 7 equates to a Risk Label of 'Very High' and an estimated number of negative annual returns over any 20 year period of 6 or greater. This is a measure of expected frequency (not magnitude) of capital losses, calculated in accordance with ASFA/FSC guidelines.

	LOW		MODERATE		HIGH
RISK TO INCOME			●		

Features and benefits

	LOW		MODERATE		HIGH
COMPLEXITY					●
ESG			●		

Fee profile

	LOW		MODERATE		HIGH
FEES VS. UNIVERSE					●
FEES VS. ASSET CLASS					●
FEES VS. SUB-SECTOR					●

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

What is this Trust?

- The Pengana Private Equity Trust ('the Trust' or ASX: PE1) is a Listed Investment Trust ('LIT') trading on the ASX since April 2019. Pengana Capital Group (Pengana) has engaged Grosvenor Capital Management (Grosvenor or 'the Manager') as the investment manager of the Trust. PE1 seeks to provide diversified private markets exposure, including private equity, private credit, and other opportunistic investments. Investments are predominantly made through Grosvenor's co-mingled funds, although exposure can also be through vehicles managed by third-party investment managers.
- PE1 targets an absolute return of 8-14% p.a. (net) over an investment horizon of at least ten years. The Trust also targets a cash distribution yield equal to 4% p.a., pro-rated on a non-compounded basis of the Trust's NAV paid semi-annually. The Trust's distributions are not franked. Pengana has also established a distribution reinvestment plan.
- The Fund has not issued a PDS since the initial raise. The Manager's most recent disclosure, effective June 2022, discloses Annual Fees and Costs ('AFC') totalling 7.4% p.a. This value comprises (1) Management Fees and Costs of 3.6% p.a. including underlying fund fees of 2.3%, (2) Performance fees of 3.8% p.a. and (3) Net Transaction Costs of 0%, noting the Trust generated a gross return of 36.5% for this period.
- A performance fee of 20% over a hurdle rate of 8% p.a. (net of Responsible Entity & Management fee) is charged. Further, the Trust has more than one layer of management and performance fees. The Trust's investments including underlying Grosvenor funds are subject to both management and performance fees, and those underlying investments may also be subject to management and performance fees by the General Partner ('GP').
- PE1's NAV is struck monthly in arrears. It should be noted that many of the underlying investments are valued quarterly. Third-party pricing information may not be available regarding a significant portion of investments in certain asset classes, and in some circumstances may rely on valuation models that Grosvenor has created in order to value the assets and calculate the account value. In these instances Grosvenor's valuations will be reviewed by a third-party firm being Duff & Phelps or Valuation Research Company once a year on a rotational basis.
- The underlying funds will employ leverage from time-to-time in a variety of ways and the 'look-through' level of gearing is expected to be moderate. The Trust's mandate permits the ability to employ leverage up to 25% of the Trust's NAV, with the Manager requiring approval from Pengana to apply leverage above 15%. The Trust has established a credit facility for up to US$50m currently.

Using this Trust

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

- As a predominately private markets strategy, equity and debt assets, Lonsec considers the Trust should likely be funded from within either the global equity or alternative growth components of a diversified portfolio. The Trust is suitable for higher risk profile investors with investment time horizons of over five years.
- The Trust is subject to equity market risk and movements, positive and negative, in the prices of the underlying investments in the portfolio. As such, the Trust is likely to exhibit high volatility and moderate-to-high correlation to global equities. Investors should be aware that the Trust may experience periods of negative returns and that there is a risk of capital loss being incurred on their investment. Lonsec also notes that there is risk of the Trust trading at a discount to NAV given the complexity of the strategy and expected volatility.
- The Trust invests in assets that are largely denominated in non-A$ currencies. The Trust will generally be unhedged for foreign currency movements and therefore currency fluctuations may significantly impact the value of the Trust.
- The Trust may pay unfranked distributions from capital, particularly in the early years, which could

lead to the unit price reducing equal to the portion of capital distributed. The distribution policy may exacerbate reductions in the capital base at times of negative capital returns, especially during market downturns and periods of heightened market volatility. Investors should also seek professional tax advice to further evaluate any implications from the distribution policy to their personal circumstances.

Suggested Lonsec risk profile suitability

SECURE	DEFENSIVE	CONSERVATIVE	BALANCED	GROWTH	HIGH GROWTH
				●	●

For guidance on appropriate asset allocations and risk profiles, refer to the latest Lonsec Strategic Asset Allocation Review and Risk Profile Definitions on our website.

Changes Since Previous Lonsec Review

- Continued build-out of the portfolio with the first allocation to Private Credit as a sub-strategy.
- Cash allocation reduced from 26% to 11% as at 31 August 2023.

Lonsec Opinion of this Trust

People and resources

- Established in 1971, Grosvenor has been investing in private markets since 1999 and currently has over US$76bn (30 June 2023) in assets under management (AUM) across absolute return strategies, private equity, real estate, infrastructure and credit. Grosvenor is headquartered in Chicago and has a further seven offices globally. The investment team totals 178 professionals with the private equity investment platform comprising 53 investors loosely structured according to Primaries, Co-investments, Secondaries, and Opportunistic. Lonsec considers the investment team to be adequately resourced.
- Effective 18 November 2020, Grosvenor listed as a public company (NASDAQ: GCMG) after a merger with CF Finance Acquisition Corp. (NASDAQ: CFFA). Post the merger, the Grosvenor investment team continue to own c. 70% of the equity interests of the combined company, although longstanding minority investor Hellman & Friedman has since exited. Importantly, Lonsec highlights that the leadership team remains unchanged post listing. Lonsec believes this transition has been handled appropriately to date but will continue to monitor this in future reviews.
- The Trust's Investment Committee is responsible for all investment decisions. It includes Grosvenor's President Jonathan Levin (Chair), alongside Managing Directors Jason Metakis, Bradley Meyers, Brian Sullivan and Fred Pollock, Chief Investment Officer and PE1's assigned Portfolio Manager. Lonsec notes that the Investment Committee is well-experienced with a firm tenure and industry experience averages of 12 and 23 years, respectively.
- In addition to being the Trust's Portfolio Manager and firm's CIO, Pollock also leads the Strategic Investments Group and is a member of the separate Private Markets and Absolute Return Strategies Investment Committees. Lonsec believes that these other roles help provide a broad perspective on global markets and are complimentary to his role as Portfolio Manager. Pollock has over 18 years' investment experience, seven of which gained at Grosvenor, and Lonsec considers him to be a capable investor.
- While investment decisions are undertaken by the Trust's Investment Committee, all new investments also require the approval of Grosvenor's Operations Committee. Lonsec believes that this dual-approval structure to be best practice, although noting it is reasonably common for private equity managers. The use of an Investment Committee also helps to reduce key person risk. The Operations Committee is also well-experienced, with an average firm tenure of 18 years and average investment experience of 26 years.
- Overall, the Private Equity Team comprises 53 professionals and executes private equity investments across primary funds, secondaries, and co-investments. Grosvenor's investment team is considered to be highly qualified, to have strong experience in investing in private markets and be sufficiently resourced. Grosvenor also has a well-resourced 15-person Operational Due Diligence Team, who are members of the Finance and Legal Departments and are separate to the investment team. The Operational Due Diligence Team is responsible for separately reviewing investments and managers from a structuring and operations perspective firm-wide and includes members with legal, audit, tax, technology and securities experience.
- Grosvenor has 485+ underlying investment manager / General Partner (GP) relationships with commitments in over 1,190 underlying private equity investments and over 250 active co-investment opportunities as at 31 March 2023. Lonsec considers Grosvenor's significant position in the private equity landscape provides several key advantages versus smaller peers. One such advantage is the ability to get continued access and preferred allocations into oversubscribed funds due to its existing relationships with GPs. Grosvenor also has an active presence as an adviser to underlying managers, with Advisory Board seats on over 40% of its mid-market buy-out fund investments. Lonsec also notes that Grosvenor tends to be much more willing than competitors to invest in GPs based in second or third tier cities. Lonsec believes this is a potential advantage and also indicates the breadth of coverage of the Manager.
- Lonsec notes the Manager and investment team are highly aligned to the performance of the Trust in a variety of ways, having invested substantial capital alongside investors, incentive fees being linked to performance outcomes, annual bonuses being based on both individual performance and the success of the firm and numerous key members of Grosvenor's management team, including investment professionals, participating in a profit share of the firm. Eligible employees also now receive shares/restricted stock units in the firm with vesting periods of over three years. Overall, Lonsec believes the strength of the alignment to be a key positive for the Trust although largely in line with peers.

Pengana Private Equity Trust

Research and portfolio construction

- The Trust seeks to invest in a range of private markets investments with the target allocation range for each being; Primaries (15-30%), Co-investments (15-30%), Secondaries (15-30%), Private credit (5-15%), Opportunistic (10-25%) and Cash (2-10%). As of 30/6/23, PE1 was overall exposed to over 500 underlying companies and is diversified across multiple dimensions including regions, vintages covering 2003 to present, and implementation methods including 15 primary funds managed by 13 cycle-tested managers, over 90 private equity co-investments and direct investments, and 26 secondary transactions (with over 70 funds and over 275 underlying companies). Lonsec considers the portfolio to be well diversified across private equity strategies and underlying exposures.
- Lonsec believes Grosvenor's due diligence process for new investment opportunities is highly detailed and robust across primaries, secondaries and co-investments. The due diligence process heavily leverages the collective senior expertise of the investment team and is supported via well-resourced investment committees. Pleasingly, Lonsec highlights the Manager is highly selective in terms of its investments which is highlighted by the low rate of primary and co-investment opportunities which have been invested into historically (circa 5%). Secondary investments are also made fairly opportunistically involving a blend of GP-led and traditional limited partner secondaries.
- Lonsec notes the Trust has a strong North America focus, with 78% allocated to the region at 31 August 2023. There is a broad approach to strategy type, albeit leveraged buyout funds are of particular focus and expected to strongly feature. Grosvenor seeks investment exposure to middle market companies, believing this larger opportunity set providers more lucrative entry valuation and more conservative capital structures.
- Lonsec views the significant use of co-mingled funds as a less than optimal approach towards portfolio construction and a detracting feature of the offering. Lonsec notes that the Trust's exposure to equity co-investments and directs is wholly concentrated in the use of internal Grosvenor funds, namely the GCM Grosvenor Co-Investment Opportunities Feeder Fund II & III and GCM Grosvenor Multi-Asset Class Fund II & III which comprise over 50% of the Trust's NAV (April 2023). Lonsec believes the use of co-mingled funds provides greater challenges to repositioning the Trust and the Trust more closely resembles a closed-ended private equity vehicle compared to researched peers. The Manager has advised that investing through co-mingled strategies offers benefits of diversification, flexibility in size allocation and access to semi-seasoned portfolios alongside helping to reduce overall operational costs relative to direct investments.
- Lonsec is mindful of potential related party risks stemming from the use of internal co-mingled funds, particularly given the material allocation. Lonsec's preference is for the use of external managers from a best practice, arm's length perspective. The Manager has recently established a feeder-fund into a newly-launched credit strategy in somewhat recognition of the drawbacks of co-mingled vehicles. In addition, Lonsec notes that direct opportunities are currently being sought as part of the Trust's pipeline of investments. Lonsec views these developments positively and will monitor this aspect in future reviews.

ESG integration

- Lonsec's ESG integration assessment considers how rigorous, robust and structured the ESG process for the Fund is as well as how well it integrates into the overall investment process and the Manager's overall policy and reporting framework. The assessment is not intended to assess the underlying holdings of the Fund's portfolio or the Manager's adherence to any form of impact, green / sustainable or ethical standards.
- At the corporate level Lonsec views the Manager's overall ESG policy framework and disclosure as behind peers. The Manager has an articulated commitment to the integration of ESG within their investment process with clear evidence of public positioning and policy framework. The updated ESG policy is freely available on the firm's website and provides high level guidance on engagement practices. The engagement policy lacks depth compared to peers and the Manager does not publicly report on engagement outcomes. Lonsec notes that PE1 invests in private markets, funds managed by third-party GPs and co-investments led by third-party GPs all of which present a limited opportunity for engagement.
- The Manager has indicated that their Responsible Investment style is "ESG Integration" and as such they take Environmental, Social and Governance factors into consideration when assessing investment opportunities. With a primary ESG style of "Risk or Value" managers will determine inclusion based on the balance of overall risk (including ESG risk) and potential return. As a result and due to PE1's goal of providing investors with broad private equity exposure, this approach may mean that lower quality ESG companies may be included if the return potential is sufficient and this may conflict with some clients perception of what a strong ESG process would deliver.
- Within the management of this specific Fund Lonsec notes:
  - While the manager is sourcing data from external ESG data providers, it is retrieved in a less robust manner than some peers. The Manager enhances their external data subscriptions with a proprietary survey of portfolio companies designed to elicit more detailed and tailored information. Storage of that data facilitates sharing through the organisation.
  - There are clear signs of robust ESG elements as a component of the Manager's research process. Research is undertaken in a structured manner. Research storage is robust, further Lonsec notes favourably a structured approach to ensuring appropriate calibration of ESG scoring across analysts and companies.
  - Transparency on the transmission from research to portfolio construction is more opaque. The Manager has indicated that the primary

transmission is based on the research providing qualitative information to portfolio manager's.
- There is monitoring of ESG characteristics of the portfolio across a number of ESG and sustainability dimensions, however, there are no portfolio level ESG based limits or targets in place for the Fund.
- Engagement is a clear component of the Manager's approach which is prioritised in a structured manner. The manager could improve its tracking and measurement of the success of those engagements. Details provided on engagements provide less insight into the Manager's engagement efforts and results than in leading managers.
- While ESG does not form a component of the Managers broader compliance framework, Lonsec looks very favourably on the level of transparency the Manager provides into portfolio holdings.

Risk management

- Risk is also managed through deep analysis at the entry stage, both in terms of the investment capability and ensuring legal rights are preserved, given the Manager invests as a minority Limited Partner (LP) investor. The Manager will also look to gain Advisory Board seats where possible, however as an LP investor, the Manager will generally be reliant on the skill of third-party managers and sponsors.
- Lonsec highlights that maintaining portfolio liquidity is a key consideration in the management of the Trust given the need to meet capital calls on underlying investments. Liquidity management is also considered to be particularly important given the Trust's cash distribution yield target. An internally derived quantitative model is used alongside stress testing of dividend and capital call assumptions. Lonsec considers the Manager's approach to cash flow modelling to be pragmatic and views favourably the vetting of liquidity assumptions by the firm's risk management and treasury teams.
- Lonsec notes the Trust's unfunded capital commitments currently total A$247m (31 August 2023) whilst the cash balance is A$49m. The quantum of over-commitment means the Trust is highly reliant on forecast distributions given the closed-end nature of the Trust. Lonsec notes the availability of a credit facility and rigour of the Manager's cash flow/liquidity forecasting, provide comfort modelled cash flows are sufficient to meet new investment commitments.
- Lonsec notes the Manager is conscious of debt and the type of relationships managers have with lenders. Lonsec highlights that the use of leverage at the underlying asset level varies between buyouts and special situations and the level of debt is considered on a bottom-up basis rather than there being any overarching philosophy on the overall level of leverage.

Fees

- The fees are 1.25% p.a. for the Responsible Entity & Management Fee and a Performance Fee of 20% over a hurdle rate of 8% p.a. (net of Responsible Entity & Management Fee). At the underlying fund level the fees are estimated by the Manager as initially being:
  a) Secondaries – a Management Fee of 1.00% p.a. plus an Incentive Fee of 10% over a Preferred Return of 8% p.a.
  b) Co-investments – a Management Fee of 0.95% p.a. plus an Incentive Fee of 10% over a Preferred Return of 8% p.a.
  c) Opportunistic – a Management Fee of 1.00% p.a. plus an Incentive Fee of 15% over a Preferred Return of 8% p.a.
  d) Primaries – a Management Fee of 1.80% p.a. plus an Incentive Fee of 20% over a Preferred Return of 8% p.a.
  e) Private Credit – a Management Fee of 0.85% p.a. plus an Incentive Fee of 17.5% over a Preferred Return of 7% p.a.
  f) Short Duration Credit – a Management Fee of 0.45% p.a.
- Further, the Trust is subject to GP fees on underlying funds and investments. These fees may vary and have the potential to be significant. These costs are reflected in the NAV of the Trust and are borne by investors, but they are not paid to the Manager.
- Lonsec considers the overall fee load, which includes more than one layer of management and performance fees (applicable at the Trust, Manager and underlying fund levels) to be high compared to peers and very high in absolute terms. This is considered to be a major detracting feature of the Trust.

Product

- The Trust is an Australian managed investment scheme (MIS) registered with ASIC. The Responsible Entity is Pengana Investment Management Limited who is responsible for operating and managing the MIS, holds an AFSL and as such is required to comply with its AFSL and RE obligations as outlined under the Corporations Act. The use of external REs is Lonsec's preferred operating model. Furthermore, the RE has employed a tier 1 custodian and administrator.
- Investments are predominantly made through Grosvenor's co-mingled funds, although exposure can also be through vehicles managed by third-party investment managers. Overall, this raises the operational complexity relative to more simple structures, however Lonsec notes the Manager's track record in managing separate accounts and mandates.
- Lonsec considers the need for a robust valuation process to be particularly important for private equity assets. Lonsec considers Grosvenor to have a robust valuation process, highlighting the Manager has firm valuation policies and a range of approaches in place to ensure assets are valued in a timely manner. An internal and separate valuation team is responsible for managing the overall valuation process and is accountable to a firm-wide valuation committee. The valuation committee meets at least quarterly, is majority comprised of non-investment personnel and the two investment personnel have no voting rights. The internally-generated valuations are tested and vetted, including the annual review by separate third-party valuation firms on a rotational basis. All Grosvenor managed funds are audited on an annual basis by an independent "Big Four" accounting firm and have received unqualified audit opinions.

Pengana Private Equity Trust

Performance

- The Trust was listed on the ASX on 30 April 2019 and therefore has yet to attain performance history over the assessed time to which it is judged. PE1 aims to achieve returns in the range of 8-14% p.a. (net) over an investment horizon of at least ten years. All figures below are to 31 August 2023 (net) unless otherwise stated.
- Over the one-and-three years to 31 August 2023, the share price return of the portfolio has been 1.2% and 13.2% p.a., respectively. This was delivered with a volatility, as measured by Standard Deviation, of 12.7% and 17.1% p.a., respectively. The NAV returns have been 6.0% and 16.5% p.a. over the same period.
- Lonsec highlights that the Trust's performance has been considerably volatile to date. Since listing, the Trust's discount/premium to NAV has varied from close to -20% to +30%. Lonsec believes this to be a function of many factors alongside the broader market volatility, including the market capitalisation of the LIT, shareholder base, management fee, portfolio performance and dividend history.
- Whilst the Trust has largely traded at a premium since listing it has recently traded at a modest discount (-5.5% as at 31 August 2023) noting that Pengana's stated intention to make on-market purchases of units in PE1 may ameliorate such imbalances should they occur. Pleasingly, PE1's distribution has increased in lockstep with its rising NAV and has achieved the 4% yield target (based on the IPO price) which should help with the trading performance. Lonsec will continue to assess the Trust's trading performance, including its portfolio construction and the investment deployment approach in future reviews.
- Grosvenor has a track record investing in private markets lasting over 20 years. The Manager's long-run performance has been strong in primaries, secondaries and co-Investments, achieving strong double digit internal rate of returns in all three strategies.

Overall

- Lonsec has maintained the Trust's '**Recommended**' rating. Lonsec considers the Grosvenor investment team to be experienced and to apply a thorough and robust investment process. The firm has a well regarded private market track record spanning over 20 years. The listed trust structure can also provide daily liquidity for an illiquid asset class.
- Lonsec notes the Trust's high level of over-commitment is strongly reliant on forecast distributions and can create potential liquidity challenges. Lonsec believes the Trust's material use of internal co-mingled funds reduces portfolio flexibility and can potentially result in high and ongoing cash drag compared to peers. Lonsec considers the overall fee load, which includes multiple management and performance fee layers, to be high compared to peers and very high overall.

People and Resources

Corporate overview

Pengana Capital Group ('Pengana') is a diversified funds management group with distinct investment strategies that aim to deliver superior long-term risk-adjusted returns to investors, with a focus on capital preservation. Pengana was founded in 2003 and is headquartered in Sydney, with smaller offices in Melbourne, Brisbane and Adelaide. As at 30 June 2023, Pengana had $3.1bn in assets under management (AUM).

Grosvenor is an investment manager with US$76bn in AUM (March 2023). This is split US$23bn in Absolute Return strategies and U$53bn in private markets. 74% of AUM is managed in customised separate accounts.

Size and experience

NAME	POSITION	EXPERIENCE INDUSTRY / FIRM
JONATHAN LEVIN	PRESIDENT	20 / 12
JASON METAKIS	MANAGING DIRECTOR	23 / 13
BRADLEY MEYERS	MANAGING DIRECTOR	25 / 20
FREDERICK POLLOCK	CIO, MANAGING DIRECTOR & PM	19 / 8
BRIAN SULLIVAN	MANAGING DIRECTOR	26 / 8

Grosvenor's investment team across private equity, real estate, infrastructure and public equities totals approximately 170 with the private markets team loosely structured according to Primaries, Co-Investments, Secondaries, and Opportunistic (which includes special situations and aims to provide some flexibility for tactical allocation shifts). There is also a dedicated private credit investment team.

Jonathan Levin is President and is responsible for the day-to-day management of the firm. Levin is Chair of Grosvenor's Global Investment Council and a member of the Investment Committees for Grosvenor's Private Markets, Absolute Return Strategies Seeding and the Strategic Investments Group.

Jason Metakis is a member of the Grosvenor's Private Markets Investment Committee and serves on Grosvenor's Global Investment Council. He focuses on private equity co-investments and direct investments and is responsible for deal sourcing, due diligence, and managing client relationships.

Bradley Meyers is Head of Grosvenor's Portfolio Management, a member of the Grosvenor's Absolute Return Strategies Investment Committee, and serves on Grosvenor's Global Investment Council. Meyers is also a member of Grosvenor's Seeding and Special Opportunities Investment Committees. Meyers is responsible for overseeing certain portfolio management processes.

Frederick Pollock is the Chief Investment Officer of Grosvenor, Head of the Strategic Investments Group (SIG), a member of Grosvenor's Private Markets and Absolute Return Strategies Investment Committees, Co-Head of Grosvenor's Research and serves on Grosvenor's Global Investment Council.

Brian Sullivan leads the secondaries practice and is focused on deal sourcing and executing secondary fund investments. He is also a member of the Grosvenor's Private Markets Investment Committee and serves on Grosvenor's Global Investment Council.

Remuneration/Alignment of interests

The Manager and investment team are incentivised through a variety of means, including:

1. Employee investment into Grosvenor funds;
2. Performance Fees;
3. Bonuses, which are based on individual employee performance and overall success of the firm;
4. Numerous key members of the management team (including investment professionals) participate in the profits of the firm; and
5. Eligible employees offered shares/restricted units in the firm with vesting period of over three years.

Research Approach

Overview

The due diligence process for underlying funds utilises a bottom-up approach involving multiple teams seeking to maximise efficiencies and ensure appropriate checks and balances in order to select and approve investments. All potential investments undergo an initial screening process to determine whether the transaction warrants additional analysis. If initial approval is granted, the deal team then undertakes due diligence and conducts detailed analysis of the key risks, merits and suitability of the proposed investment.

Grosvenor seeks to assess each GPs potential for value creation at different stages of the investment process (i.e., sourcing, due diligence, structuring, execution, monitoring, and exit) to gain an in-depth understanding of the opportunities and risks associated with each investment. Grosvenor is an active investor across the spectrum of both market and fund manager size. Grosvenor maintains an extensive network of GP relationships (700+) and is able to gain access to a range of private equity managers.

Grosvenor seeks investment exposure to middle market companies based on the belief they represent a larger opportunity set, lower entry valuations, and have more conservative capital structures. In addition, middle market investments can offer fund managers more opportunity for organic value creation and increased exit opportunities, resulting in the potential for higher returns.

Primaries

Key assessment criteria for primary investments:

1. Top quartile performers with repeatable strategies.
2. The skill and composition of the GP's team. (This process includes off-list reference checks).
3. The value creating initiatives that the team have previously made.
4. The Manager generally prefers mid-market managers, as they allow LPs more time (typically several weeks) to do their due diligence than larger GPs.
5. In terms of analysis of prior performance, there is a focus on consistency.
6. The Manager is conscious of leverage and what type of lender relationships managers have. The target leverage varies between buyouts and special situations and debt is considered on a bottom-up basis. There is no overarching philosophy on the level of leverage.
7. The Manager will typically look to use it scale and relationships to get access to allocations in oversubscribed funds.
8. The Manager will also look to get better fee terms of transactions (i.e. better than the typical 2% p.a. & 20% performance fee).

Secondaries

Key assessment criteria for secondary investments:

1. Does the Manager have an informational advantage because there are not too many competing buyers?
2. The level of discount to NAV.
3. A focus on middle market and special situations funds.
4. Niche sector opportunities.
5. The focus is on deal sizes of around $50m.
6. The Manager is most proactive in buying into Secondaries when the NAV is understated for purchases.
7. Grosvenor will tend to take control of an Advisory Board seat if the seller has one.
8. The underlying GP is a consideration, albeit, the quality of the investment team is then factored into the price/discount to NAV.

Co-investments

Co-investments are considered by the Manager on a case-by-case basis. The Manager generally enters a transaction as a minority investor but working with management team to drive value creation.

Generally, the Manager will hold co-investments for an average of four-to-five years. The Manager has the ability to exit on the same terms and at the same time as the sponsor, usually exiting through the sale of a company either through trade sale or an IPO (which is rare).

The Manager will also keep track of the deals they have let pass and this helps shape the future due diligence and possibly correct where they were too selective (i.e. where the deal was rejected but subsequently did well).

Private credit

Private credit investments include a wide variety of fixed income instruments that seek to capitalise on dislocations in credit markets and mispriced/misunderstood credits. Primary strategies include: structured credit, distressed credit, mezzanine debt and direct lending as well as other niche strategies such as litigation finance.

Direct and opportunistic investments

The opportunistic investment strategies implemented in the Trust have the flexibility to invest across illiquid asset classes, strategies, sectors, regions and capital structure. The objective of these strategies is to invest in compelling risk-adjusted return opportunities across Grosvenor's global alternatives platform.

Portfolio Construction

Overview

Pengana Private Equity Trust

The Trust utilises strategies employed across Grosvenor's investment platform and seeks to provide diversification across underlying investment managers, vintages, geographies, sectors, and strategies. Grosvenor generally seeks to invest with underlying investment managers who have historically managed investment vehicles which have generated upper quartile returns, and whom Grosvenor believes have the potential to continue to do so due to strong deal sourcing capabilities, superior structuring and execution skills, and the ability to add value at an operating level.

The portfolio construction process incorporates both top-down and bottom-up elements. Grosvenor conducts analysis of target industries, sectors and regions, including an analysis of the economic conditions, investment environment, and the state of the private equity markets. The helps guide the team's sourcing, due diligence and portfolio construction decisions. This approach considers various factors such as deal flow, team expertise, market conditions, long-term value creation opportunities, and risk mitigation.

The Trust may invest either directly or indirectly through investments in one or more of Grosvenor's funds or other underlying funds. The target allocation range for each strategy are primaries (15-30%), co-investments (15-30%), secondaries (15-30%), private credit (5-15%), opportunistic (10-25%) and cash/short duration public credit (2-10%). Ultimately, the Manager intends for the portfolio to be highly diversified with exposure to in excess of 500 underlying companies.

Risk Management

Risk limits

SEPARATE RISK MONITORING	YES
MAXIMUM COMMITMENT TO ANY SINGLE UNDERLYING FUND	20%

All new investments in the Trust require the approval of Grosvenor's Operations Committee. The Operations Committee includes: Vice Chairman and Operations Committee Chair, Chief Operating Officer, Head of Operational Due Diligence, Global Chief Compliance Officer and General Counsel.

From an investment perspective, Grosvenor seeks to identify, evaluate and mitigate material risks of underlying funds prior to making a commitment by, among other things:

- Conducting due diligence and confirming facts about the manager – team, strategy, track record, benchmarking, fundraising status and legal terms.
- Understanding the manager's value add and differentiation relative to the market.
- Understanding the manager's competitive advantage and ability to generate returns over various market cycles.
- Assessing the manager's operational risks.
- Assessing the manager's organisational stability.
- Assessing strategy relative to market opportunity.
- Assessing competitive dynamics.
- Determining portfolio fit relative to strategy.

Risk monitoring

The risk monitoring process is undertaken by the Manager with oversight by Pengana.

Currency management

The Trust will generally be unhedged for currency movements. In certain limited circumstances, the Trust may engage in foreign exchange hedging transactions intended to reduce foreign exchange exposure, primarily to hedge capital calls or known commitments.

Risks

Equity market risk

Investments in equity markets are subject to numerous factors which may have an impact on the performance of an investment both positive and negative. Unexpected changes in economic, technological, structural, regulatory or political conditions can have an impact on the returns of all investments within a particular market. Although liquidity is generally expected to exist in this secondary market on the ASX, there are no guarantees that an active trading market with sufficient liquidity will develop.

Risks Associated with Portfolio Companies

The companies in which the Trust or the underlying funds invest in may involve a high degree of business and financial risk. These companies may be in an early stage of development, may not have a proven operating history, may be operating at a loss or have significant variations in operating results, may be engaged in a rapidly changing business with products subject to a substantial risk of obsolescence, may require substantial additional capital to support their operations, to finance expansion or to maintain their competitive position, may have a high level of leverage, or may otherwise have a weak financial condition.

Lack of Portfolio Liquidity

The underlying funds are not expected to provide any voluntary liquidity to investors and may, at any given time, hold significant amounts of securities and other assets that are very thinly-traded, for which no market exists, or which are restricted as to their transferability.

Debt and Leverage Risk

The underlying funds will employ leverage from time to time in a variety of ways. The Trust may borrow directly or through an intermediate entity to fund investments, pay fees and expenses or to address the timing issues associated with the acquisition of investments and re-investment of proceeds. The use of leverage will magnify the potential gains and losses.

Currency Risk

Investments will predominantly be made in U.S. dollars, as well as multiple other foreign currencies, and if these currencies change in value relative to the Australian dollar, the value of these investments can change and accordingly can negatively affect the value of the Trust.

Portfolio Valuation

Valuations of the underlying investments are expected to involve uncertainties and discretionary determinations. Third-party pricing information may not be available regarding a significant portion of Trust assets and in some circumstances may rely on valuation models that Grosvenor has created.

Credit risk

Credit risk refers to the risk that a party to a credit transaction fails to meet its obligations, such as defaulting on a mortgage, a mortgage-backed security, a hybrid security, a fixed interest security or a derivative contract. This creates an exposure to underlying borrowers and the financial condition of issuers of these securities.

Pengana Private Equity Trust

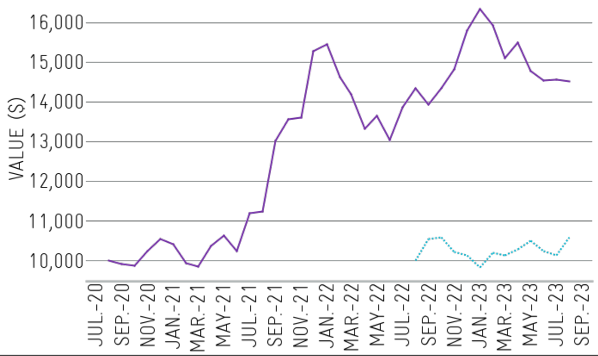
Quantitative Performance Analysis - annualised after-fee % returns (at 31-8-2023)

Performance metrics

	1 YR	2 YR	3 YR	5 YR
TOTAL RETURN (% PA)	1.19	13.60	13.23	-
STANDARD DEVIATION (% PA)	12.71	18.86	17.05	-
EXCESS RETURN (% PA)	-2.18	11.74	11.98	-
WORST DRAWDOWN (%)	-11.21	-15.58	-15.58	-
TIME TO RECOVERY (MTHS)	NR	6	6	-
TRACKING ERROR (% PA)	12.71	18.94	17.11	-

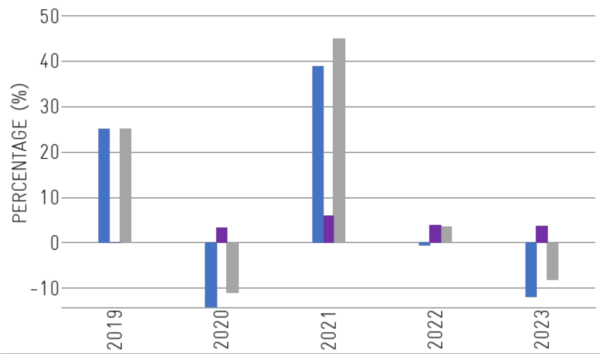
PRODUCT: PENGANA PRIVATE EQUITY TRUST
PRODUCT BENCHMARK: BLOOMBERG AUSBOND BANK BILL INDEX AUD
TIME TO RECOVERY: NR - NOT RECOVERED, DASH - NO DRAWDOWN DURING PERIOD

Growth of $10,000 over three years



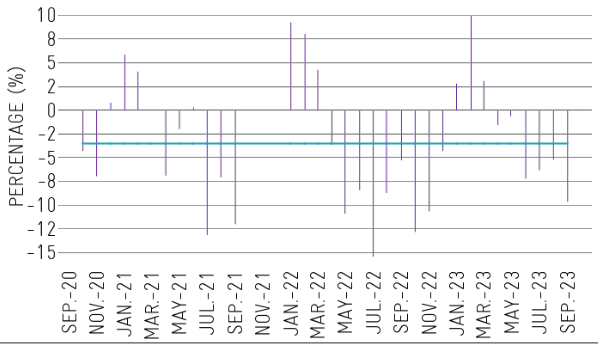
PENGANA PRIVATE EQUITY TRUST - Unit Price
PENGANA PRIVATE EQUITY TRUST - NAV

Calendar Year Returns over five years



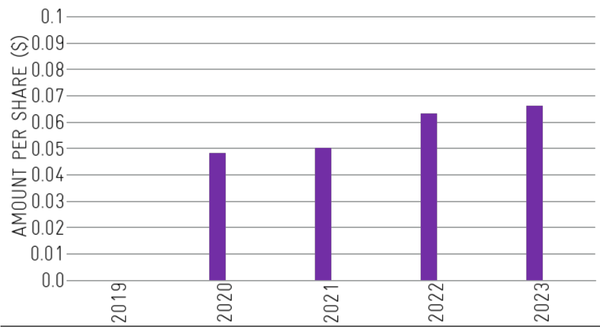
CAPITAL RETURN DIVIDEND YIELD (NET) TOTAL RETURN

Unit Price Premium/Discount to NAV over three years



PREMIUM/(DISCOUNT)
AVERAGE

Dividend Record over five years



ADJUSTED DIVIDEND (DECLARED)
GROSS DIVIDEND

Pengana Private Equity Trust

Glossary

Click here for the glossary of terms.

About Lonsec

Lonsec Research Pty Ltd (Lonsec) is an investment research house with specialist areas of expertise, that was originally established in 1994 and the current entity was registered on 23 June 2011. From 1 July 2011, Lonsec became a fully owned subsidiary of Lonsec Fiscal Holdings Pty Ltd, a privately owned entity with a multi-brand strategy of providing leading financial services research and investment execution. Lonsec believes that professional financial advisers need informed opinions on the best investment strategies and financial products to provide real value for their clients. To meet this need, Lonsec has in place an experienced research team, which draws on a robust research process to undertake in-depth assessment of managed fund products.

Analyst Disclosure and Certification

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