SQM RESEARCH

Pengana High Conviction Equities Fund

This report has been prepared for financial advisers only

Superior

November 2023

INTRODUCTION

Key Principles

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

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

Currency of Reports

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Report Date: 1 November 2023

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

* 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 ★★★★½

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 (Small-Mid Caps)
Management and Service Providers	
Fund Manager	Pengana Capital Ltd
Responsible Entity	Pengana Capital Ltd
Custodian	BNP Paribas
Fund Information	
Fund Inception Date	Class A: 11 Dec 2014; and Class B: 15 July 2020
Fund Size	$37 million (Both Classes)
Return Objective (as per PDS)	The Fund's investment objective is to deliver returns that exceed the RBA Cash Rate target +3% and to outperform the MSCI World Total Return Index (net, AUD) over the long term
Internal Return Objective	N/A
Risk Level (as per PDS)	Very High
Internal Risk Objective	N/A
Benchmark	MSCI World Total Return Index; and RBA Cash Rate target +3%
Number of stocks/positions	Max 20 securities
Fund Leverage	None
Turnover	Approximately 95% p.a. (3-year average)
Top 10 Holdings Weight	Approximately 60-65%
Investor Information	
Management Fee	Class A: 1.80% pa of the Class' NAV (including GST net of RITC) Class B: 1.25% pa of the Class' NAV (including GST net of RITC)
Total Cost Ratio	FY2023 - Class A: 1.98% (incl perf. fee of 0%) and Class B 1.22% (incl perf. fee of 0%)
Buy Spread	0.25%
Sell Spread	0.25%
Performance Fee Rate	Class A: 15.38% (including GST net of RITC) of the Class return in excess of the Fund's hurdle of the Reserve Bank of Australia's Cash Rate target +3% pa, payable half-yearly Class B: 20% (including GST net of RITC) of the Class return in excess of the Fund's hurdle of the MSCI World Total Return Index (net, AUD), payable half-yearly
Minimum Application	$10,000
Redemption Policy	Daily
Distribution Frequency	Half-yearly (June and December)
Investment Horizon (as per PDS)	Seven or more years
Currency Hedging Policy	The Fund's investment manager will not typically hedge currency exposures.

Fund Summary

Description

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

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

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

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

Fund Rating

The Fund (both Unit Classes A & B) 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 September 2022)

SQM Research's Review & Key Observations

1. People and Resources

About the Fund Manager

Pengana Capital Limited (the Fund's Responsible Entity and Manager) was established in **2003** (AFSL 226 566 granted 7 May 2003) and is a wholly-owned subsidiary of Pengana Holdings Pty Ltd, which is a wholly-owned subsidiary of Pengana Capital Group Ltd (PCG). Pengana Capital Group is a Funds Management group specialising in listed and unlisted equities. Their focus is on delivering distinct investment strategies that deliver superior risk-adjusted returns to investors, focusing on capital preservation. On **1 June 2017**, Pengana merged its business with Hunter Hall International Limited. Upon completion of the merger, Hunter Hall was renamed Pengana Capital Group Limited (PCG).

Pengana is based in Sydney, Australia, with additional offices in Melbourne, Brisbane, and Perth. The directors and staff currently own circa **45%** of the business, which is profitable. Pengana manages about **A$3.9 billion** and has about **56** staff members.

Investment Team

The Fund's investment team comprises of 2 Portfolio Managers - **James McDonald** and **Jeremy Bendeich**, and an Analyst.

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

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

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

2. Investment Philosophy and Process

Investable Universe

The Fund may invest in any Australian or globally listed equities. Equities do not need to be included in the MSCI World index to be eligible for inclusion in the portfolio.

Investments are more likely to be in healthcare, industrial and technology sectors and less likely in financials.

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

Process / Philosophy / Style

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

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

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

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

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

3. Portfolio Characteristics

Portfolio Turnover

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

Recent market volatility has also meant that the historical turnover of the Fund has been elevated above its usual level. *The 3-year average annual portfolio turnover is approximately **95%**.*

Liquidity

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

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

Leverage

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

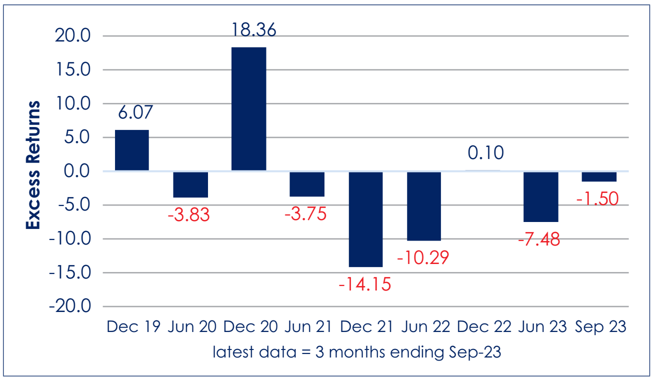
4. Performance & Risk

Return Objective

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

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

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



Length of Track Record

The Fund has a history of **8.8** years. Observations and analysis of returns will have a *significant* statistical meaning due to the sample size of observations.

Risk Objective

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

Performance

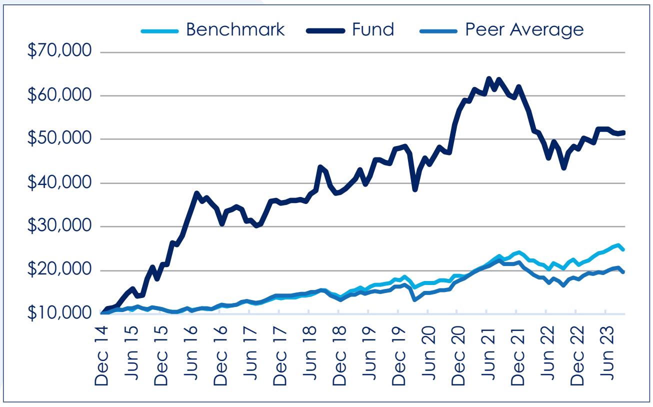
Fund Performance to 30 September 2023 (% p.a.)							
Total Return	**1-Month**	**3-Month**	**6-Month**	**1-Year**	**3-Year**	**5-Year**	**Inception**
Fund	0.29	-1.94	4.62	18.61	2.99	3.82	20.58
Benchmark	-3.98	-0.43	7.02	21.49	11.93	9.74	10.91
Peer Average	-4.57	-1.95	1.73	18.14	7.98	4.34	6.62
Alpha	4.27	-1.50	-2.40	-2.88	-8.93	-5.92	9.67

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

Benchmark: MSCI World NR AUD

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

Growth of $10,000



Strengths of the Fund

- Pengana has built up a long track record of managing money across various Funds, specialising in Australian & International Equities. Pengana manages about $3.9 billion in FUM and has about 56 employees.
- The Fund's investment team is highly experienced and knowledgeable. Both PMs - James McDonald and Jeremy Bendeich, have over 20 years of industry experience.
- The investment/research process is robust.
- The Fund has a highly flexible mandate, significantly high Active Share, and a significantly high allocation to non-index stocks. SQM Research is of the opinion that these factors provide the Fund with the additional ability to generate alpha in a more unconstrained manner.
- The Fund has significantly outperformed the benchmark and the peer group on a since inception basis. A very significant proportion of the total outperformance was achieved within the 1st year, i.e., 2015, and to a lesser extent in the 2nd year.

Weaknesses of the Fund

- The Fund's Portfolio Management team has not worked together for a long period of time. That said, this is somewhat mitigated by the fact that the Strategy is highly concentrated and is predominantly focused on 3-4 industry sectors. Staff turnover in the broader International Equities team (which did contribute to this Fund, albeit to a limited extent), i.e., the departure of 2 key Pengana PMs and the Analysts (in March 2021), has led to some short-term issues, including FUM outflows for some of the Pengana International Funds (not this Fund).

- The Fund is significantly more volatile than the benchmark and the peer group.
- The total fee (TCR) charged for the 'Class A' units can be significantly higher than the peer average, predominantly because of the performance fees and also the higher management fee. Under the fee structure, a performance fee is accrued for any returns over Cash+3%, which is a very low hurdle rate for such a Fund (even though a high water mark applies). Pengana has advised that these units are not being actively promoted to investors, and therefore the fee charged for the 'Class B' units is more relevant for prospective investors. The total fee (ICR) charged for the 'Class B' units, whilst higher than the peer average, is comparatively reasonable.
- The Fund has underperformed the benchmark over 3 years and 5 years.

Other Considerations

- Considering the sector, investment process/style and the size of the team, SQM Research is of the opinion that the Key Person risk (in James McDonald) is "medium to high."
- Being significantly overweight small to mid-cap bias stocks (Vs the MSCI World Index), SQM Research believes that the portfolio and certain stocks in the portfolio would have lower liquidity than a regular large-cap/broad-cap Fund.
- Unconstrained & Sector biases: The team/Fund has a strong bias toward investing in healthcare, industrials, and technology sectors and is less likely in financials. Being unconstrained means that, just as an example, the allocation to healthcare (the Fund's most preferred sector since inception) has averaged about 35% since inception, with very significant variations - a low of 8% and high of 63%. Similarly, country allocations can vary significantly between the USA, Europe, and Australia, and so can allocations to Cash.
- Pengana notes that the Ethical & ESG component of the investment process is an important factor. As a general note (not for this Fund), some of these filters/restrictions are subjective and may reduce the investable universe/alpha opportunities, although that is less of a factor for a concentrated Global Equities Fund with a strong sectoral bias.
- The Board of Directors of the Responsible Entity (Pengana Capital Limited or PCL) is not majority independent. SQM Research prefers the inclusion of independent members on the Board of Directors – it is a meaningful way to enhance governance and oversight. That said, the Board of Directors of the Parent (Pengana Capital Group or PCG) is majority independent. SQM Research considers that a positive.
- The Fund is Unhedged and will therefore be impacted by currency movements (either positively or negatively).
- Some of the **Key Metrics** of the Fund include: The Active Share is significantly high at about 90-95%; allocation to non-index stocks is significantly high at about 60-80%; the Beta Vs MSCI World varies significantly (refer to the performance table).

Key Changes since the Last Review

- No material changes to the investment process or the team since the previous review.

Investment Process Diagram

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

Process Description

Investment Process	
Top-down or bottom-up	The Fund is primarily focused on bottom-up stock calls; however, some consideration is given to top-down/macro analysis when selecting investments.
Research and Portfolio Construction Process	**Idea Generation** Ideas are generated and assessed through the following means: • Open mind – good opportunities abound • Reading – journals, newspapers/websites, broker research, financial documents, industry statistics • Conferences/company visits/calls – speak with a number of companies weekly, and a team conducts at least six trips, p.a. • 13D research – competitors or client/supplier of a current candidate • Quantitative screens – quality and valuation metrics • Experience – team's global experience means they avoid time wasting • Top-down – sectors or geographies that are out of favour and have a high probability of mean-reversion **Screening** In addition to the negative screening *(mentioned above)*, the team aims to: • Avoid companies: which are overleveraged, face structural headwinds, significant controversies etc. • Seek companies: which are cash generative, have a reasonable valuation, good management, growth, good ESG record and cash balance. The team believes that screening via financial metrics such as free cash flow yield to market cap, revenue growth, EV/EBITDA, EV/EBIT/ EV/Sales, and historical high and low margins can be useful. They are more useful in countries with less coverage, such as Japan.

Investment Process

Research and Portfolio Construction Process

...continued

Research & Stock Selection

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

Key criteria targeted in the research process:

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

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

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

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

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

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

Investment Process

Research and Portfolio Construction Process

...continued

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

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

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

Portfolio Construction

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

Step 1 – Determine Upside *(mentioned above)*

Step 2 – Determine Risk *(mentioned above)*

Step 3 – Determine Implied Weighting

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

Sell Discipline

Factors considered in deciding to sell/trim a position include:

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

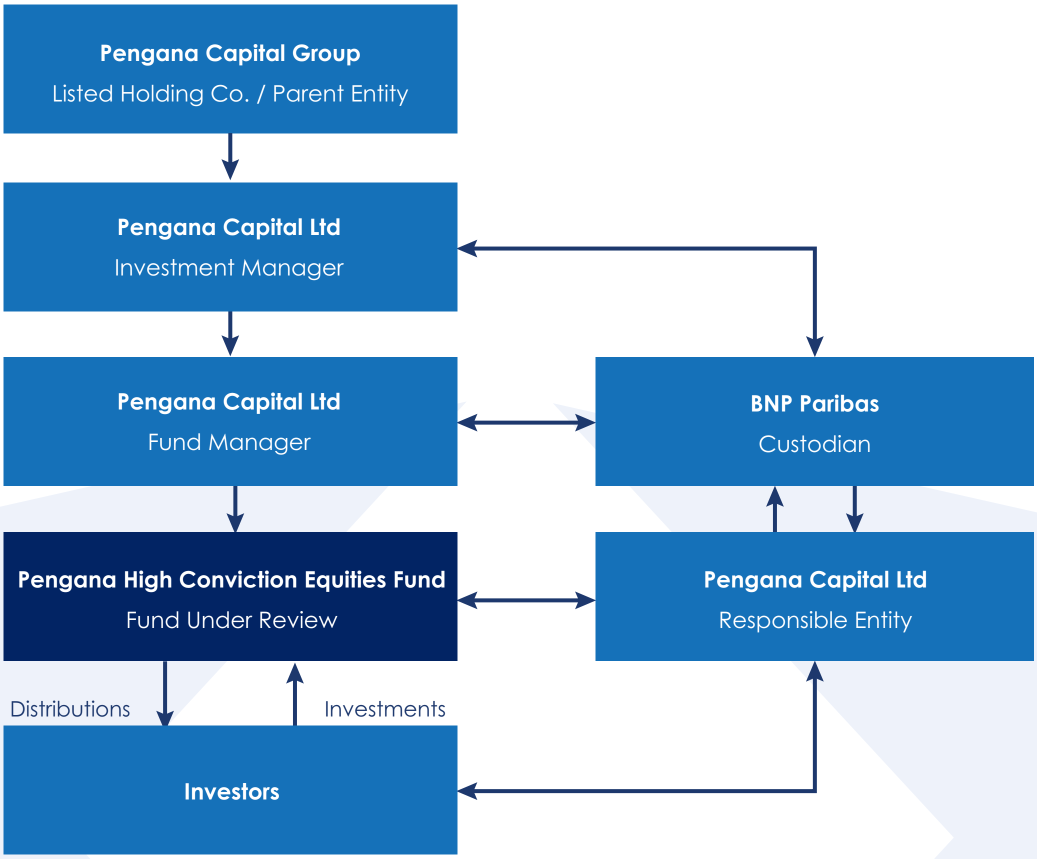
Risk Management

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

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

Investment Process	
Research and Portfolio Construction Process	Monitoring of risk limits is performed daily by a Risk Analyst independent from the portfolio management team. The analyst generates risk reports which are reviewed daily by the CIO or Performance and Risk Manager and monthly by a Risk Committee, which includes the CIO and Head of Operations.
...continued	The daily risk reports monitor the following: Mandate limits, Exposures; Position size; Liquidity; Daily trading activity; and Derivatives (if applicable). Operational risks are monitored independently by the operational team. Counterparty risks are monitored weekly by the independent risk management team. **Hedging & Derivatives** Currency risk is not hedged. Derivatives are not used in the portfolio. However, the Fund is able to use them if required.

Key Counterparties



Parent Company

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

Pengana Capital Limited (the Fund's Responsible Entity and Manager) was established in 2003 (AFSL 226 566 granted 7 May 2003) and is a wholly-owned subsidiary of Pengana Holdings Pty Ltd, which is a wholly-owned subsidiary of Pengana Capital Group Ltd (PCG). Pengana is based in Sydney, Australia, with additional offices in Melbourne, Brisbane, and Perth. The directors and staff currently own circa 45% of the business, which is profitable. Pengana manages about **A$3.9 billion** and has about **56** staff members.

Investment Manager / Fund Manager

As above.

Responsible Entity

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

The **Board of Directors of the Responsible Entity (Pengana Capital Limited)** consists of **3** directors, **none** of whom are independent. SQM Research prefers the inclusion of independent members on the Board of Directors – it is a meaningful way to enhance governance and oversight. Board members have an average of **32** years of industry experience.

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

The Responsible Entity's **Compliance Committee** is composed of **3** members, **2** of whom are independent. The Chair **is** independent. The minutes of Compliance Committee meetings are reported in full to the Pengana Capital Group Board. SQM Research views independence in a RE oversight body such as the Compliance Committee as a strong and favourable factor in Fund governance. Compliance Committee members have an average of **37** years of industry experience.

Management Risk

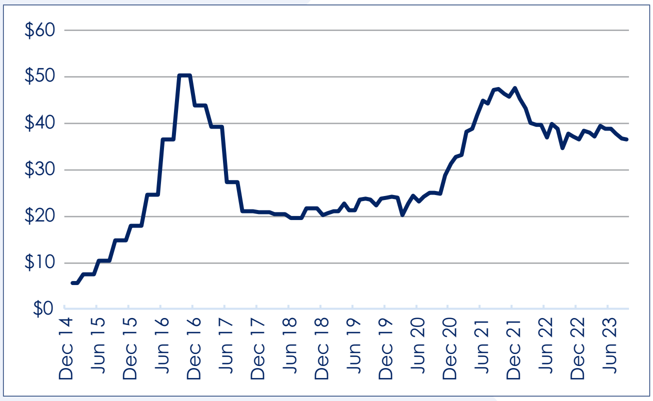
Funds management businesses rely on the operational capabilities of key counterparties. A critical element is the ability of the Responsible Entity to monitor operational performance and to meet the regulatory and statutory responsibilities required. For any investment fund, there is a risk that a weak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

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

Funds under Management (FUM)

The Fund is approximately $37 million in size.

FUM for Fund under Review ($mill)



Distributions

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

Name	Responsibility / Position	Location	Years at Firm	Years in Industry
James McDonald	Portfolio Manager	Sydney	20.0	26.0
Jeremy Bendeich	Portfolio Manager	Sydney	2.0	29.5
Hansheng Zhang	Investment Analyst	Sydney	1.0	3.0
		Average	**8.0**	**19.0**

Investment Team

The Fund's investment team comprises of 2 Portfolio Managers - **James McDonald** and **Jeremy Bendeich**, and an Analyst.

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

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

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

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

Staffing Changes

The staff changes in the Pengana international equity investment team over the **last 4 years** have been listed below.

None of the individuals that have departed except Veronica Price were dedicated resources for the High Conviction Fund.

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

Additions / Hires			
Date	**Name**	**New Responsibility**	**Previous Position / Employer**
13-Jan-20	Veronica Price	Equity Analyst	Macquarie Bank
20-Jan-20	Joy Yacoub	Executive Director - International Equities	Allan Gray
01-May-21	Jeremy Bendeich	Portfolio Manager	Avoca IM Founder; UBS, CFS, Citibank
28-Feb-22	Hansheng Zhang	Investment Analyst	Intern at Pengana

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

Remuneration and Incentives

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

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

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

Fees and Costs	Fund (Class A)	Fund (Class B)	Peer Avg
Management Fee (% p.a.)	1.80%	1.25%	1.20%
Expense Recovery (% p.a.)	0.19%	–	–
Performance Fee (%)	15.38%	20%	–
Total Cost Ratio (TCR) (% p.a.)	1.98%	1.22%	1.43%
Buy Spread (%)	0.25%	0.25%	0.27%
Sell Spread (%)	0.25%	0.25%	0.27%

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

Management Fee

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

Performance Fee

There is a performance fee charged as follows:

- ***For 'Class A' units:* 15.38%** of the amount by which the Fund's investment returns (**after** base management fees have been deducted) exceed the returns of the performance fee Benchmark (**RBA Cash Rate + 3% p.a.**).
- ***For 'Class B' units:* 20%** of the amount by which the Fund's investment returns (**after** base management fees have been deducted) exceed the returns of the performance fee Benchmark (**MSCI World Total Return Index, net in AUD**).
- Including GST and 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 60 basis points higher than the peer group average. The TCR (or total fee) is 55 bps higher than the peer group average. The ICR for FY21 was 6.42%.***
- ***For 'Class B' units: The Fund management fee is almost the same as the peer group average. The TCR (or total fee) is 21 basis points lower than the peer group average. The ICR for FY21 was 1.98%.***
- ***The performance fees are structured as per the details above.***
- ***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.***

Risk/Return Data to 30 September 2023							
Total Return	**1-Month**	**3-Month**	**6-Month**	**1-Year**	**3-Year**	**5-Year**	**Inception**
Fund	0.29	-1.94	4.62	18.61	2.99	3.82	20.58
Benchmark	-3.98	-0.43	7.02	21.49	11.93	9.74	10.91
Peer Average	-4.57	-1.95	1.73	18.14	7.98	4.34	6.62
Alpha	4.27	-1.50	-2.40	-2.88	-8.93	-5.92	9.67
Metrics				**1-Year**	**3-Year**	**5-Year**	**Inception**
Tracking Error (% p.a.) - Fund				11.33	12.54	12.52	23.33
Tracking Error (% p.a.) - Peer Average				7.93	8.65	9.04	8.29
Information Ratio - Fund				-0.25	-0.71	-0.47	0.41
Information Ratio - Peer Average				-0.39	-0.45	-0.61	-0.06
Sharpe Ratio - Fund				1.25	0.10	0.14	0.79
Sharpe Ratio - Peer Average				1.13	0.47	0.18	0.36
Volatility - Fund (% p.a.)				11.99	17.02	18.65	24.16
Volatility - Peer Average (% p.a.)				13.07	14.45	16.33	14.63
Volatility - Benchmark (% p.a.)				11.96	12.08	12.54	11.45
Beta based on stated Benchmark				0.55	0.95	1.11	0.65

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

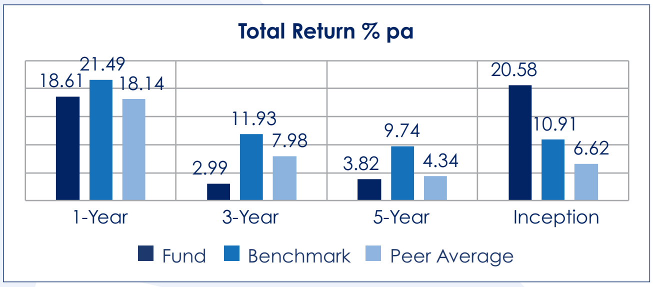
Benchmark: MSCI World NR AUD

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

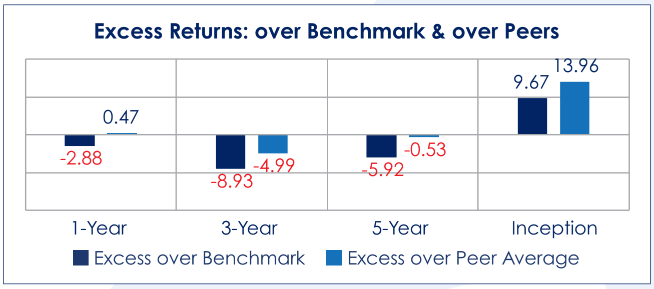
Quantitative Insight[1]

Note: Unless otherwise stated, all return and risk data reported in this section are **after-fees** and for **periods ending Sept 2023.**

Returns



Excess Returns (Alpha)



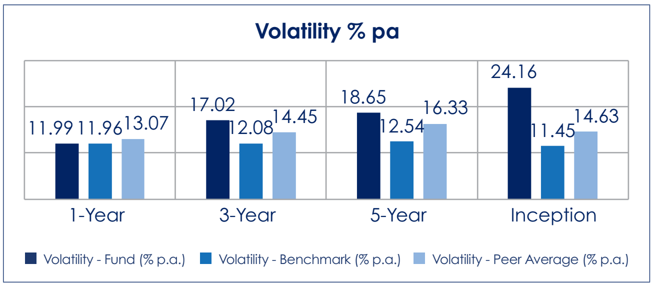
The Fund has displayed mixed performance across different periods when compared with the benchmark and its peers. The Fund has underperformed the benchmark and the peer group average over the last 3 years but has outperformed very substantially on a since inception basis. The substantial underperformance over last 3 years has been disappointing and has impacted the long-term numbers. ***SQM Research observes that a very significant proportion of the total outperformance since inception was achieved in the 1st year, i.e., 2015 and to a lesser extent in the 2nd year (as shown earlier in the report).***

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

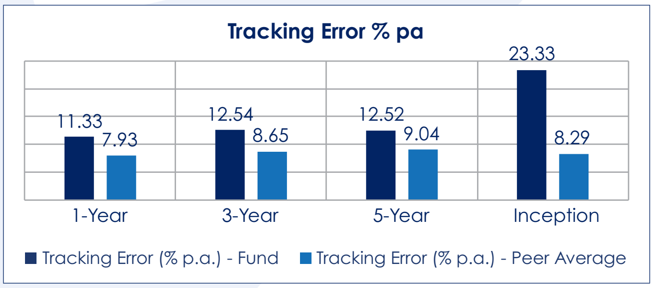
The **return outcomes** as described above exceed the PDS objective and are above SQM's expectations for the Fund relative to its fee level and volatility.

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

Risk



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



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

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

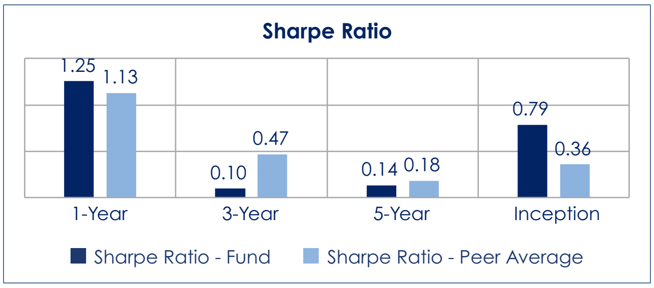
Drawdowns

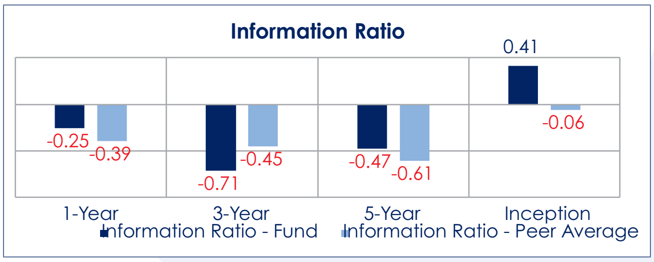
Drawdown Summary			
Drawdown Size (peak-to-trough)			
	Fund	Bench	Peers
Average	-10.39%	-5.04%	-9.38%
Number	11	15	10
Smallest	-0.05%	-0.87%	-0.57%
Largest	-32.06%	-15.95%	-26.89%
Length of Drawdown (in months)			
	Fund	Bench	Peers
Average	6.2	5.6	8.4

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

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

Risk-Adjusted Returns





The Fund's risk-adjusted returns (as measured by Sharpe and Information ratios) have been mixed when compared to the peer averages. The ratios are materially/substantially better on a since inception basis, whilst being weaker over the 3-year period. ***As noted earlier, SQM Research observes that a very significant proportion of the total outperformance since inception was achieved in the 1st year, i.e., 2015 and to a lesser extent in the 2nd year.***

Correlation of Fund to Asset Classes

Market	3 years	Inception	Market Indexes
Aust Bonds	+47.4%	+25.4%	Bloomberg AusBond Composite 0+Y TR
Aust Stocks	+63.9%	+36.2%	S&P/ASX 300 TR
Global Bonds	+54.4%	+31.0%	BBgBarc Global Aggregate TR Hdg AUD
Global Stocks	+67.2%	+30.5%	MSCI World Ex Australia NR AUD

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

Tail Risk

*(The analysis in the table below looks at the **tail risk performance relationship of the Fund to the ASX300**, a practice that SQM has set as common across asset classes in Fund reviews. This approach recognises that for the large bulk of financial planner clients, their key traditional asset class **risk** regarding **size** and **volatility** is to Australian equities. Exploring that relationship is useful regardless of the asset class of the Fund itself, as it is*

helpful to understand how a Fund has acted in times of Australian equity market stress in terms of softening or exaggerating the negative performance experienced at such times.)

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

Extreme Market Returns vs Fund Return Same Month

Index: S&P/ASX 300 TR — **From Jan-15 to Sep-23**

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	Mar-18	-3.73%	+0.07%	+3.80%
Totals		**-78.66%**	**-41.15%**	**+37.51%**

		No. of Months	
Correlation	+74.5%	Positive Return	3
Capture	+52.3%	Outperform	8

Tail Risk Observations:

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

Snail Trail

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

There are **70** observations in total.

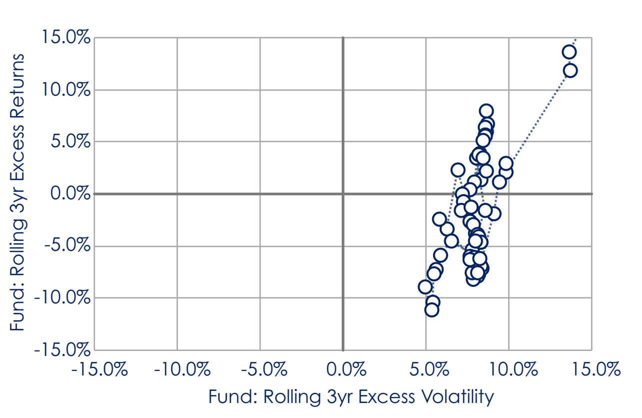
The two tables below display the distribution of these observations and their overall frequency across the risk/return quadrants.

Snail Trail Distribution

Frequency	Lo-Vol	Hi-Vol	Total
Hi-Return	**0**	33	33
Lo-Return	0	37	37
Total	**0**	**70**	**70**

70 rolling 3-year observations

% of Total	Lo-Vol	Hi-Vol	Total
Hi-Return	**0.0%**	47.1%	47.1%
Lo-Return	0.0%	52.9%	52.9%
Total	**0.0%**	**100.0%**	**100.0%**



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

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

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

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

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

Consistency

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

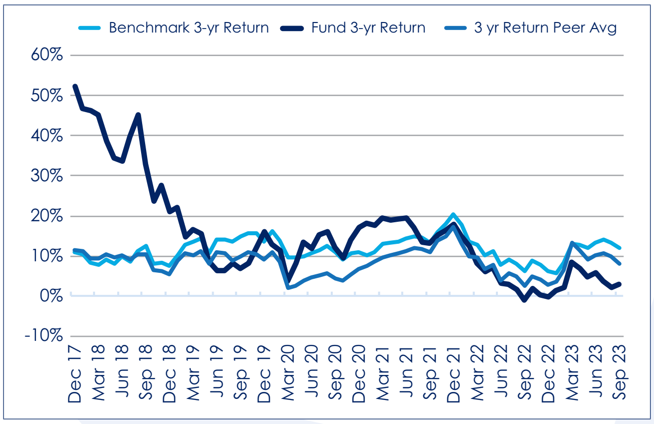
Annual Returns

Year	Fund	Benchmark	Peer Avg	vs. Bench	vs. Peers
2015	+113.48	+11.50	+11.41	**+101.99**	**+102.07**
2016	+43.90	+8.02	+9.38	**+35.88**	**+34.51**
2017	+15.17	+13.32	+15.88	**+1.85**	**-0.71**
2018	+7.18	+1.42	-6.36	**+5.76**	**+13.54**
2019	+26.50	+27.86	+23.62	**-1.36**	**+2.88**
2020	+18.34	+5.58	+8.30	**+12.75**	**+10.04**
2021	+9.20	+29.29	+23.36	**-20.09**	**-14.16**
2022	-22.91	-12.24	-18.32	**-10.67**	**-4.59**
Sep-23	+7.64	+16.74	+9.84	**-9.10**	**-2.20**

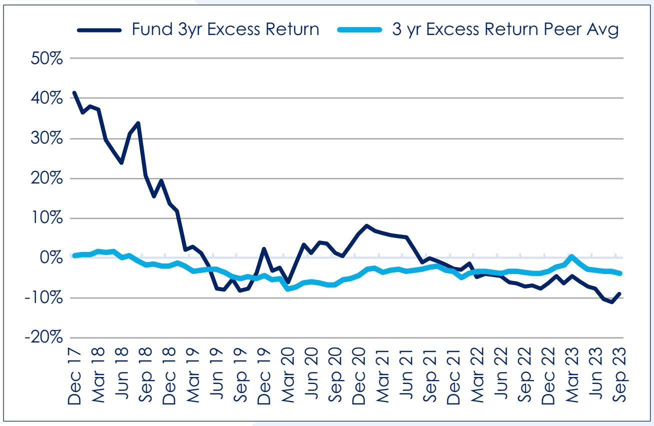
2023 data = 9 months ending Sep-23

Return and Risk

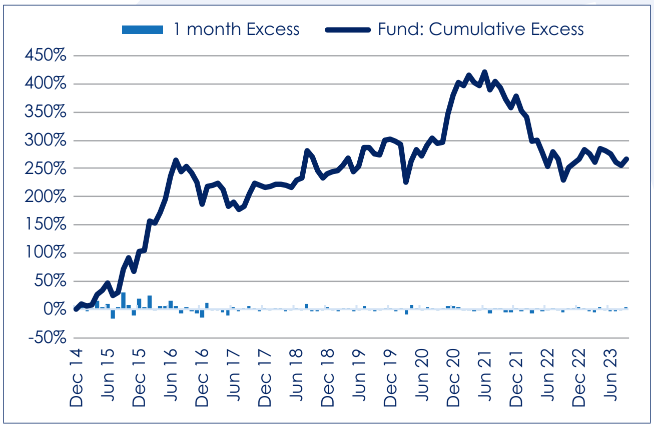
Rolling Returns



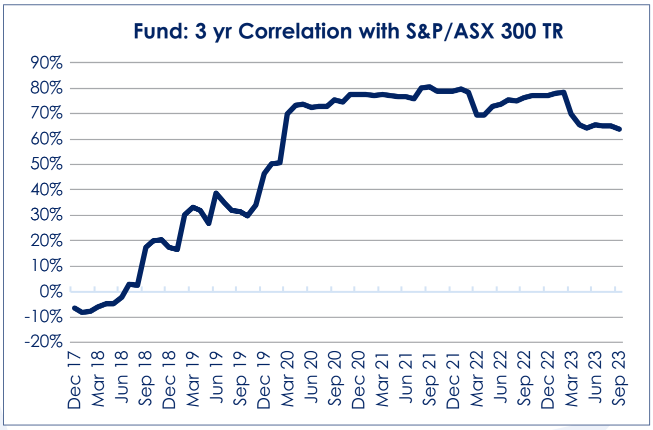
Rolling Excess Returns



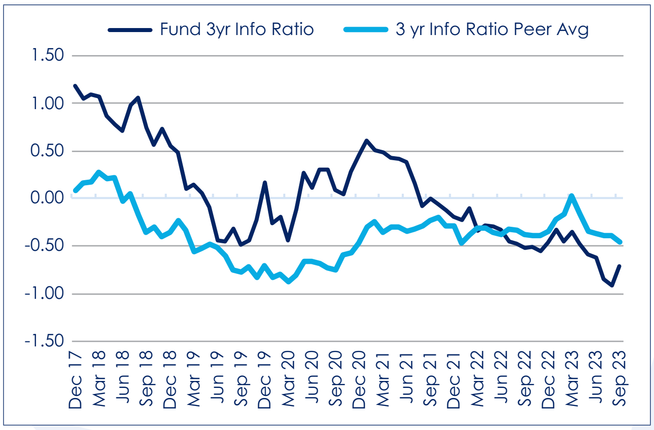
Cumulative Excess Returns



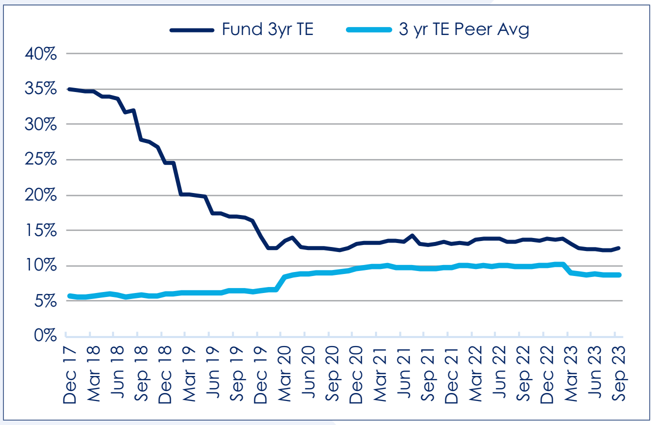
Rolling Correlation



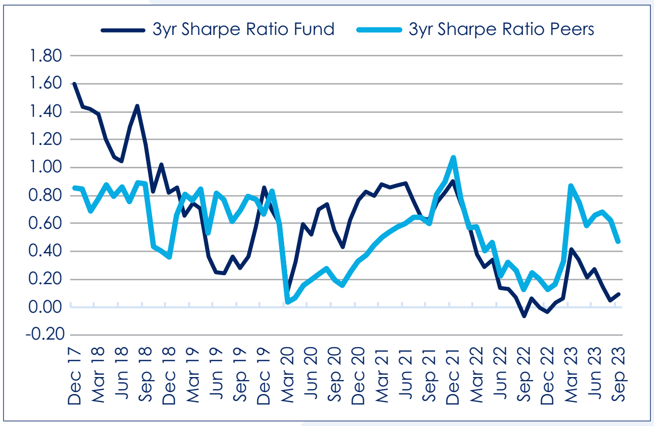
Rolling Information Ratio



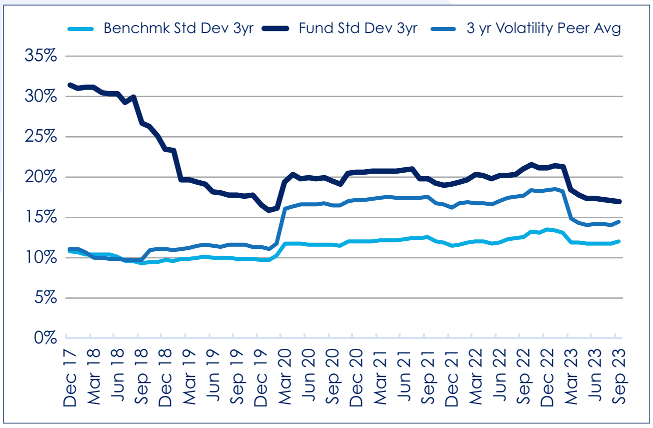
Rolling Tracking Error



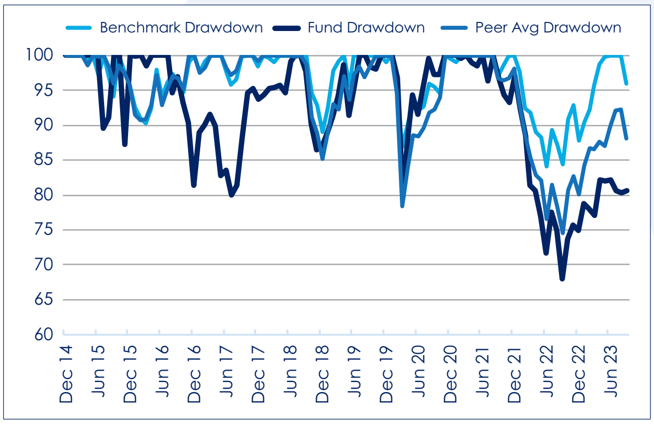
Rolling Sharpe Ratio



Rolling Volatility



Drawdowns



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

Fund Constraints and Risk Limits	Permitted Range or Limit
Maximum number of securities	20
0%-100% cash and cash equivalents	100%
0%-100% Australian and global securities	100%

Other Constraints	
Maximum exposure to single security	30.00%
Maximum exposure to single stock/company	N/A
Maximum exposure to single sector	Healthcare 50% IT 30% Industrials 30% Financials 30% Consumer Discretionary 30% Communications 30% Consumer Staples 30% Materials 50% Utilities 30% Real Estate 30% Energy 0%
Maximum exposure to a single country	USA 60% The UK and Japan 30% Other Developed and Korea 20% Emerging Markets Total 20%
Maximum exposure to geographic region	Other Developed and Korea 20% Emerging Markets Total 20%

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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