



PENGANA

CAPITAL GROUP

PENGANA CAPITAL GROUP LIMITED

31 DECEMBER
2022

INTERIM FINANCIAL REPORT

PENGANA CAPITAL GROUP LIMITED

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**PENGANA
CAPITAL GROUP
LIMITED**



TABLE OF CONTENTS

Letter from the Chief Executive Officer	1
Directors' report	6
Auditor's independence declaration	8
Statement of profit or loss	9
Statement of other comprehensive income	11
Statement of financial position	12
Statement of changes in equity	14
Statement of cash flows	15
Notes to the financial statements	16
Directors' declaration	26
Independent auditor's review report to the members of Pengana Capital Group Limited	27



LETTER FROM THE CEO

The first six months of the 2023 financial year saw performance in global markets strengthen somewhat, however volatility persisted and investors remained wary. Pengana's range of funds tend to favour sustainable growth companies, market sectors hardest hit by interest rate rises in the period, so whilst most of Pengana's strategies delivered positive absolute performance, relative returns marginally lagged overall market returns and inflows were subdued.

In the first half of the 2023 financial year, Pengana continued to make progress in the strategic expansion of its private market offerings, as well as the formation of a capital markets division.

FUNDS UNDER MANAGEMENT (FUM)¹

After taking into account the impact of the divestment of PCG's 65% direct equity stake in Lizard Investors LLC ('Lizard') (the result of a strategic review as Pengana continues its pivot towards high growth, high margin private markets product offerings to Australian investors), the half-year period saw a marginal 3% decrease in FUM, from \$3.04 billion at 30 June to \$2.96 billion at 31 December 2022. Performance improved and added \$95 million; however, this was overshadowed by fund distributions to investors of \$123 million and net outflows of \$47 million, as outflows uncharacteristically exceeded subdued inflows.

Strong performance continued in January 2023, with a \$119 million performance uplift partially offset by \$43 million in gross fund distributions paid to investors increasing FUM to \$3.04 billion. Net flows were flat in January 2023.

¹ All FUM commentary excludes the FUM attributable to Lizard Investors LLC ('Lizard'), unless otherwise specified.



FINANCIAL RESULTS

Pengana generated underlying profit before tax of \$3.8 million representing 2.41 cents per share after normalised tax.

Pengana Capital Group	Dec 2022	Dec 2021
Operating EBITDA and underlying profit	\$'000	\$'000
Management fee revenue	18,081	22,026
Performance fee revenue	-	19,263
Net fund direct expenses	(1,504)	(1,620)
Operating expenses	(8,271)	(7,126)
Team profit share	(5,800)	(9,847)
Operating EBITDA	2,506	22,696
Interest and investment income distributions	356	220
Interest on loan funded share plan	687	718
Financing costs	(42)	(55)
Adjustments for non-recurring items	263	1,602
Underlying profit before tax	3,770	25,181
<i>Basic EPS on underlying profit after tax¹</i>	<i>2.41 cps</i>	<i>16.23 cps</i>

FUM over the six months to 31 December 2022 was on average 17% lower than FUM in the previous comparable period, translating into management fee revenue decreasing by 18%. Although all of our strategies (bar one) delivered positive performance, no performance fees were earned in the period. We consider this to be a very unusual outcome due to the high-degree of diversification amongst our funds, although we note that six months is a relatively short period and that there were several exceptional market factors that impacted relative performance across our funds during these months.

At the time of writing, FUM was on par with that of the average in the first half of the 2023 financial year, with Pengana the beneficiary of approximately 61% of the average management fee rate of 1.19%. We expect continued improvements in this key metric, as we strategically shift our FUM growth plans towards higher margin products.

Operating expenses increased from \$7.1 million to \$8.3 million, primarily a reflection of expanding our efforts and expenditure in distribution, as well as occupancy expenses post covid.

Operating EBITDA at \$2.5 million was significantly lower than the prior comparative period predominantly due to the absence of performance fees. Revaluation of investments and the impact of discontinued operations at \$263,000 were significantly down compared to the prior period, and the resulting \$3.8 million of underlying profit before tax delivered after tax earnings of 2.41 cents per share, compared to the 16.23 cents per share delivered in the prior comparable period.

BALANCE SHEET

Our Net Tangible Underlying Assets decreased by 6% in the period to 31 December 2022 and at \$56.2 million represent 51 cents per share. During the period we paid \$6.8 million or 8 cents per share in dividends and eliminated borrowings, ending the period with \$23 million in net liquid assets².

Our Board today declared a 2 cents per share dividend, fully franked at 30% tax rate.

Although Pengana does not have intensive capital requirements, the management of our balance sheet is critically important to our business and the returns we deliver to shareholders in the long term, as it allows us to capture strategic opportunities as they arise.

PRIVATE MARKETS EXPANSION

We remain focused on creating investment products that provide unique solutions to challenges faced by Australian investors looking to diversify their portfolios. Our focus is on identifying asset allocation gaps in our clients' portfolios, and designing products with optimised structures devised with the end investor in mind.

While investor demand for private market exposures is growing at a rapid rate, in Australia there is a lack of appropriate vehicles for retail and high-net-worth ("HNW") investors.

As indicated in my 30 June 2022 letter, Pengana has been working on expanding further into private markets. Our distribution team has identified strong client demand for well-structured products managed by reputable high quality global managers. Expansion of Pengana's product offerings into private markets is expected to deliver not only FUM growth, but also management and performance fee diversification and stability, and overall higher net margins to Pengana.

In the period since 30 June, significant progress has been made in expanding Pengana's private market capabilities in both private equity ("PE") and private credit ("PC").

² Including assets held for AFSL licensing requirements.



Private Equity

In April 2019 Pengana launched the Pengana Private Equity Trust (ASX: PE1), and its net assets at listing of \$205 million have since grown to \$434 million through strong performance and two subsequent raisings. PE1 offers an institutional grade global private equity portfolio to Australian retail investors, in a listed format that enables accessibility and liquidity not typically offered in private equity investments of this calibre.

Since the launch of PE1, retail investor demand for private equity has intensified and we are now seeing a number of Australian investors allocating approximately 5-15% of their portfolios into the sector. We anticipate that current market dynamics will further bolster investor demand for private assets. PE1 is well positioned to participate in this increasing demand – managed by an institutional grade global investment manager, its listed structure uniquely provides liquidity to naturally illiquid, but highly diversified, private equity assets.

In addition to PE1, Pengana also intends to offer discreet illiquid private equity opportunities to our sophisticated/wholesale investor clients in due course.

Private Credit (“PC”)

As Australian retail and HNW investors have become more comfortable with investing in private market assets, demand for PC has soared. While there is plethora of offerings on the market, available products tend to offer little diversification and are typically offered through sub-optimal structures unsuitable for retail and HNW investors.

Pengana is well positioned to deliver highly attractive strategies in the PC space. Over the last three years Pengana has demonstrated an ability to deliver innovative products, and has developed a deep understanding of the private markets sector. Through the initial and subsequent public offerings for PE1, Pengana’s executive team have gained experience and expertise in structuring, marketing and distributing private asset products. Importantly, over the years we have nurtured relationships with various market participants (including leading global private asset managers) adding to our ability to construct, launch and manage unique market solutions.

During the period, the Pengana Private Credit division was formed and commenced constructing a large Foundation Portfolio, with seeding currently under way. The structure of the Foundation Portfolio will give Pengana the option to use it as a base to launch a number of different feeder investment products, each specifically tailored to the needs of a segment of Pengana’s client base, including direct retail, advised clients and family offices.

LAUNCH OF CAPITAL MARKETS DIVISION

The Pengana Capital Markets division (“PCM”) will build on groundwork laid by Pengana over the years, where we have selectively offered discrete capital market opportunities to our family office and ultra-high net worth investors on an ad-hoc basis. Headed by Phil Schofield, who brings experience from roles at Goldman Sachs, Patterson Securities and Canaccord, the division will focus on capital raisings for discreet opportunities, including individual equities, credit instruments and funds, predominantly in private markets. This new offering is highly synergistic with Pengana’s private markets business.

We expect that PCM will be a high-margin business consisting predominantly of upfront fees with scope for some ongoing management and/or performance fees.

OUTLOOK

Pengana remains strategically well positioned due to our breadth of strategies with excellent long term track records, highly scalable infrastructure, and our marketing and distribution capabilities. Pengana’s strategic initiatives are aimed at delivering long term value creation, and our growth in the coming years will be driven by focusing resources and capabilities on meeting client demand with innovative products.

The timing and magnitude of our return to performance fees will, to a certain extent, be dependent upon various market factors. We do expect these factors to normalise in the future and combined with alpha generation in our various strategies will return Pengana to normalised levels of profitability over the short to medium term.

As always, I thank you for your continued support.



Russel Pillemer

**Managing Director and Chief Executive Officer
Pengana Capital Group Limited
24 February 2023**

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'group') consisting of Pengana Capital Group Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the half-year ended 31 December 2022.

Directors

The following persons were directors of Pengana Capital Group Limited during the whole of the financial half-year and up to the date of this report, unless otherwise stated:

Warwick Negus - Non-Executive Chairman
Russel Pillemer - Managing Director and Chief Executive Officer
Jeremy Dunkel - Non-Executive Independent Director
Kevin Eley - Non-Executive Independent Director
David Groves - Non-Executive Independent Director

Principal activities

The principal activity of the group is funds management with the objective of increasing investor wealth by developing, offering and managing investment funds in Australia and globally as opportunities arise.

Dividends

Dividends paid during the financial half-year were as follows:

Consolidated	
31 Dec 2022	31 Dec 2021
\$'000	\$'000

On 24 August 2022, a fully franked final dividend of 8.0 cents per ordinary share was declared for the year ended 30 June 2022 and paid on 13 September 2022 to the shareholders registered on 30 August 2022 (31 December 2021: 8.0 cents per ordinary share).

6,812	6,705
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On 24 February 2023, the directors declared a fully franked interim dividend for the half-year ended 31 December 2022 of 2.0 cents per ordinary share. The dividends will be paid on 16 March 2023 to eligible shareholders on the register on 2 March 2023.

Significant changes in the state of affairs

On 30 March 2022, a five-year lease for new business premises at Governor Philip Tower, Level 27, 1 Farrer Place, Sydney was signed. The lease commenced on 8 July 2022 at which time a lease asset of \$3,446,000 and a lease liability of \$3,340,000 was recognised.

Discontinued operations

Effective 1 January 2023, the group divested its 65% direct equity stake in the US operations of Lizard Investors LLC. Accordingly, the operating results of Lizard Investors LLC are disclosed as discontinued operations for the half-year period ended 31 December 2022. Refer to note 5 of the notes to the financial statement for further information.

There were no other significant changes in the state of affairs of the group during the financial half-year.

Review of operations

The profit for the group after providing for income tax and non-controlling interest amounted to \$322,000 (31 December 2021: \$15,506,000).

Please refer to the Chief Executive Officer's Report accompanying the interim report for a comprehensive review of operations.

Matters subsequent to the end of the financial half-year

Effective 1 January 2023, the group divested its 65% direct equity stake in Lizard Investors LLC ('Lizard') to facilitate a restructure that was recommended following a strategic review that recognised the group is better placed to focus on significant growth opportunities in the Australian market, whilst Lizard would be better positioned to grow under full employee ownership. Refer to note 5 of notes to the financial statements for further details.

Apart from the dividend declared as discussed above, no other matter or circumstance has arisen since 31 December 2022 that has significantly affected, or may significantly affect the group's operations, the results of those operations, or the group's state of affairs in future financial years.

Rounding of amounts

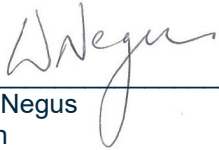
The company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors



Warwick Negus
Chairman



Russel Pillemer
Chief Executive Officer

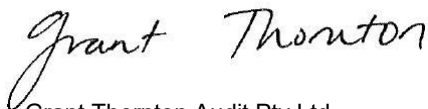
24 February 2023
Sydney

Auditor's Independence Declaration

To the Directors of Pengana Capital Group Limited

In accordance with the requirements of section 307C of the *Corporations Act 2001*, as lead auditor for the review of Pengana Capital Group Limited for the half-year ended 31 December 2022, I declare that, to the best of my knowledge and belief, there have been:

- a no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b no contraventions of any applicable code of professional conduct in relation to the review.



Grant Thornton Audit Pty Ltd
Chartered Accountants



N M Gonzalez
Partner – Audit & Assurance

Sydney, 24 February 2023

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Pengana Capital Group Limited
Statement of profit or loss
For the half-year ended 31 December 2022



	Note	Consolidated	
		31 Dec 2022 \$'000	31 Dec 2021 \$'000
Revenue			
Management fees		18,370	22,341
Performance fees		-	28,598
Total revenue	3	<u>18,370</u>	<u>50,939</u>
Share of profits of associates accounted for using the equity method		554	317
Interest revenue calculated using the effective interest method		93	24
Other income and gains	4	<u>322</u>	<u>865</u>
Total revenue and income		<u>19,339</u>	<u>52,145</u>
Expenses			
Human resources expenses		(6,225)	(8,253)
Fund manager profit share expense		(5,307)	(16,133)
Fund operating expenses		(1,712)	(1,850)
Occupancy expenses		(158)	(204)
Technology and telecommunications expenses		(584)	(512)
Marketing and investment research expenses		(481)	(261)
Insurance expenses		(625)	(588)
Professional, registry and listing related expenses		(265)	(170)
Depreciation and amortisation expenses		(1,769)	(1,362)
Finance costs		(105)	(59)
Capital raising and product development expenses		(144)	(3)
Other operating expenses		(141)	(259)
Total expenses		<u>(17,516)</u>	<u>(29,654)</u>
Profit before income tax expense from continuing operations		1,823	22,491
Income tax expense		<u>(762)</u>	<u>(6,287)</u>
Profit after income tax expense from continuing operations		1,061	16,204
Loss after income tax expense from discontinued operations	5	<u>(852)</u>	<u>(750)</u>
Profit after income tax expense for the half-year		<u>209</u>	<u>15,454</u>
Profit for the half-year is attributable to:			
Non-controlling interest		(113)	(52)
Owners of Pengana Capital Group Limited		<u>322</u>	<u>15,506</u>
		<u>209</u>	<u>15,454</u>

The above statement of profit or loss should be read in conjunction with the accompanying notes

Pengana Capital Group Limited
Statement of profit or loss
For the half-year ended 31 December 2022



		Cents	Cents
Earnings per share for profit from continuing operations attributable to the owners of Pengana Capital Group Limited			
Basic earnings per share	17	1.27	19.35
Diluted earnings per share	17	1.21	18.00
Earnings per share for loss from discontinued operations attributable to the owners of Pengana Capital Group Limited			
Basic earnings per share	17	(0.89)	(0.83)
Diluted earnings per share	17	(0.89)	(0.83)
Earnings per share for profit attributable to the owners of Pengana Capital Group Limited			
Basic earnings per share	17	0.39	18.51
Diluted earnings per share	17	0.37	17.22

The above statement of profit or loss should be read in conjunction with the accompanying notes

Pengana Capital Group Limited
Statement of other comprehensive income
For the half-year ended 31 December 2022



	Consolidated	
	31 Dec 2022	31 Dec 2021
	\$'000	\$'000
Profit after income tax expense for the half-year	209	15,454
Other comprehensive income		
<i>Items that will not be reclassified subsequently to profit or loss</i>		
Gain on the revaluation of equity instruments at fair value through other comprehensive income, net of tax	218	918
<i>Items that may be reclassified subsequently to profit or loss</i>		
Foreign currency translation	(9)	(6)
Foreign currency translation on minority interest	(6)	(8)
Other comprehensive income for the half-year, net of tax	203	904
Total comprehensive income for the half-year	<u>412</u>	<u>16,358</u>
Total comprehensive income for the half-year is attributable to:		
Continuing operations	-	-
Discontinued operations	(119)	(60)
Non-controlling interest	(119)	(60)
Continuing operations	1,270	17,116
Discontinued operations	(739)	(698)
Owners of Pengana Capital Group Limited	531	16,418
	<u>412</u>	<u>16,358</u>

The above statement of other comprehensive income should be read in conjunction with the accompanying notes

Pengana Capital Group Limited
Statement of financial position
As at 31 December 2022



		Consolidated	
	Note	31 Dec 2022	30 Jun 2022
		\$'000	\$'000
Assets			
Current assets			
Cash and cash equivalents		13,145	25,656
Trade and other receivables		223	623
Contract assets		2,995	7,588
Investments in financial assets at fair value through profit or loss		-	1,420
Income tax refund due		1,175	-
Prepayments and security deposits		1,286	965
		<u>18,824</u>	<u>36,252</u>
Assets classified as held for sale	6	5,722	-
Total current assets		<u>24,546</u>	<u>36,252</u>
Non-current assets			
Trade and other receivables		358	387
Investments accounted using the equity method		3,280	4,016
Financial assets at fair value through other comprehensive income	8	6,357	6,046
Property, plant and equipment		969	209
Intangibles	9	54,559	58,473
Right-of-use assets	10	4,032	287
Prepayments and security deposits		555	573
Total non-current assets		<u>70,110</u>	<u>69,991</u>
Total assets		<u>94,656</u>	<u>106,243</u>
Liabilities			
Current liabilities			
Trade and other payables	11	3,990	8,657
Employee benefits		1,303	1,297
Bank loan		-	1,250
Lease liabilities		645	234
Income tax liability		-	4,504
		<u>5,938</u>	<u>15,942</u>
Liabilities directly associated with assets classified as held for sale	7	2,370	-
Total current liabilities		<u>8,308</u>	<u>15,942</u>
Non-current liabilities			
Employee benefits		201	213
Provisions		186	-
Lease liabilities		3,316	52
Deferred tax		3,051	2,656
Total non-current liabilities		<u>6,754</u>	<u>2,921</u>
Total liabilities		<u>15,062</u>	<u>18,863</u>
Net assets		<u>79,594</u>	<u>87,380</u>

The above statement of financial position should be read in conjunction with the accompanying notes

Pengana Capital Group Limited
Statement of financial position
As at 31 December 2022



	Note	Consolidated	
		31 Dec 2022 \$'000	30 Jun 2022 \$'000
Equity			
Contributed equity	12	98,909	98,859
Reserves	13	26,889	35,867
Accumulated losses		(46,611)	(46,933)
Equity attributable to the owners of Pengana Capital Group Limited		79,187	87,793
Non-controlling interest		407	(413)
Total equity		<u>79,594</u>	<u>87,380</u>

The above statement of financial position should be read in conjunction with the accompanying notes

Pengana Capital Group Limited
Statement of changes in equity
For the half-year ended 31 December 2022



Consolidated	Contributed equity \$'000	Reserves \$'000	Accumulated losses \$'000	Non-controlling interest \$'000	Total equity \$'000
Balance at 1 July 2021	99,804	34,854	(46,453)	(115)	88,090
Profit/(loss) after income tax expense for the half-year	-	-	15,506	(52)	15,454
Other comprehensive income for the half-year, net of tax	-	912	-	(8)	904
Total comprehensive income for the half-year	-	912	15,506	(60)	16,358
<i>Transactions with owners in their capacity as owners:</i>					
Share-based payments	-	392	-	-	392
Share buy-back	(615)	-	-	-	(615)
Transfer from accumulated losses to profits reserve	-	43,519	(43,519)	-	-
Dividends paid (note 14)	-	(6,705)	-	-	(6,705)
Balance at 31 December 2021	99,189	72,972	(74,466)	(175)	97,520
Consolidated	Contributed equity \$'000	Reserves \$'000	Accumulated losses \$'000	Non-controlling interest \$'000	Total equity \$'000
Balance at 1 July 2022	98,859	35,867	(46,933)	(413)	87,380
Profit/(loss) after income tax expense for the half-year	-	-	322	(113)	209
Other comprehensive income for the half-year, net of tax	-	209	-	(6)	203
Total comprehensive income for the half-year	-	209	322	(119)	412
<i>Transactions with owners in their capacity as owners:</i>					
Share buy-back (note 12)	(432)	-	-	-	(432)
Loan repayment on treasury shares	482	-	-	-	482
Share-based payments (note 13)	-	337	-	-	337
Adjustments to acquisition reserve (note 13)	-	(2,712)	-	939	(1,773)
Dividends paid (note 14)	-	(6,812)	-	-	(6,812)
Balance at 31 December 2022	98,909	26,889	(46,611)	407	79,594

The above statement of changes in equity should be read in conjunction with the accompanying notes

Pengana Capital Group Limited
Statement of cash flows
For the half-year ended 31 December 2022



	Consolidated	
Note	31 Dec 2022	31 Dec 2021
	\$'000	\$'000
Cash flows from operating activities		
Receipts from customers (inclusive of GST)	25,746	45,826
Payments to suppliers, customers and employees (inclusive of GST)	(21,983)	(32,126)
Dividends received	259	191
Interest received	93	25
Other revenue	99	149
Finance costs	(42)	(55)
Income taxes paid	(6,140)	(5,854)
	<u>(1,968)</u>	<u>8,156</u>
Net cash (used in)/from operating activities		
Cash flows from investing activities		
Proceeds from disposal of interests in subsidiaries	-	2,207
Payments for purchase of investments in associates	(44)	(1,464)
Payments for property, plant and equipment	(561)	(22)
Proceeds from shareholder loan repayments	28	28
Payments for purchase of financial instruments held at fair value through profit or loss	(2,195)	-
Proceeds from disposal of investments in associates	-	1,468
Proceeds from disposal of investments in financial assets	3,567	1,736
Proceeds from security deposits	22	-
Payments for security deposits	-	(6)
	<u>817</u>	<u>3,947</u>
Net cash from investing activities		
Cash flows from financing activities		
Repayment of borrowings	(1,250)	(625)
Repayment of lease liabilities	(440)	(125)
Payments for share buy-backs	(2)	(615)
Dividends paid	14 (6,812)	(6,705)
Proceeds from loan repayment on treasury shares	53	-
	<u>(8,451)</u>	<u>(8,070)</u>
Net cash used in financing activities		
Net (decrease)/increase in cash and cash equivalents	(9,602)	4,033
Cash and cash equivalents at the beginning of the financial half-year	25,656	19,900
Effects of exchange rate changes on cash and cash equivalents	7	(32)
	<u>16,061</u>	<u>23,901</u>
Cash and cash equivalents at the end of the financial half-year*		

* 31 December 2022 cash and cash equivalents include \$2,916,000 disclosed under assets held for sale (note 6).

The above statement of cash flows should be read in conjunction with the accompanying notes

Note 1. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 31 December 2022 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2022 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, unless otherwise stated.

The financial statements cover Pengana Capital Group Limited as a consolidated entity consisting of Pengana Capital Group Limited ('company' or 'parent entity') and the entities it controlled at the end of, or during, the half-year (collectively the 'group'). The financial statements are presented in Australian dollars, which is Pengana Capital Group Limited's functional and presentation currency.

New or amended Accounting Standards and Interpretations adopted

The group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the group during the financial half-year ended 31 December 2022 and are not expected to have any significant impact for the full financial year ending 30 June 2023.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Note 2. Operating segments

Identification of reportable operating segments

The main business activities of the group are the provision of funds management services. The Board of Directors and the Chief Executive Officer, are identified as the Chief Operating Decision Makers ('CODM'), and they consider the performance of the main business activities on an aggregated basis to determine the allocation of resources.

Other activities undertaken by the group, including investing activities, are incidental to the main business activities.

Based on the internal reports that are used by the CODM, the group has one operating segment being development, offering of and management of investment funds.

The operating segment information is the same information as provided throughout the financial statements and are therefore not duplicated.

The information reported to the CODM is on a regular basis.

Note 3. Disaggregation of revenue

Revenue is substantially generated in Australia and is recognised over time. Revenue is categorised as either management or performance fees on the statement of profit or loss.

Note 4. Other income and gains

	Consolidated	
	31 Dec 2022	31 Dec 2021
	\$'000	\$'000
Dividends and distributions	187	187
Rental income	36	35
Reversal of impairment on disposal of subsidiary	-	533
Other income	99	110
	<u>322</u>	<u>865</u>

Note 5. Discontinued operations

Effective 1 January 2023, the group divested its 65% direct equity stake in Lizard Investors LLC ('Lizard') to facilitate a restructure that was recommended following a strategic review that recognised the group is better placed to focus on significant growth opportunities in the Australian market, whilst Lizard would be better positioned to grow under full employee ownership.

Arrangements between the group and Lizard for management of the Pengana Global Small Companies Fund, that predate the group's investment in Lizard on 1 January 2020 by nearly 5 years will remain in place, and the successful growth of the Pengana Global Small Companies Fund will remain a key focus for both businesses.

The restructure involves the group fully withdrawing as a member of Lizard and receiving an option to acquire a 6.5% stake in Lizard at a future date which is determined by an order of events. The estimated fair value of consideration for withdrawing as a member is \$1.5 million resulting in an immaterial gain or loss on the divestment of Lizard Investors LLC.

As a result of the restructuring, the financial results, assets and liabilities of the discontinued operations have been separately disclosed within the statement of profit or loss and other comprehensive income and the statement of financial position. Refer to below for the financial performance of the discontinued operation. Refer to note 6 and note 7 for details of assets and liabilities of the discontinued operations that are classified as held for sale.

Note 5. Discontinued operations (continued)

Financial performance information

	Consolidated	
	31 Dec 2022	31 Dec 2021
	\$'000	\$'000
Revenue		
Management fees	702	1,407
Performance fees	-	447
Total revenue	<u>702</u>	<u>1,854</u>
Realised and unrealised gains/(losses) on financial instruments	370	-
Other income	50	49
Total other income	<u>420</u>	<u>49</u>
Expenses		
Human resources expenses	(839)	(1,540)
Fund manager profit share expense	-	(519)
Fund operating expenses	(49)	-
Occupancy expenses	(5)	(69)
Technology and telecommunications expenses	(313)	(338)
Marketing and investment research expenses	(41)	(27)
Insurance expenses	(23)	(28)
Professional, registry and listing related expenses	(151)	(79)
Depreciation and amortisation expenses	(92)	(35)
Finance costs	(5)	(1)
Other operating expenses	(456)	(17)
Total expenses	<u>(1,974)</u>	<u>(2,653)</u>
Loss before income tax expense	(852)	(750)
Income tax expense	-	-
Loss after income tax expense from discontinued operations	<u>(852)</u>	<u>(750)</u>

Cash flow information

	Consolidated	
	31 Dec 2022	31 Dec 2021
	\$'000	\$'000
Net cash (used in)/from operating activities	(403)	686
Net cash from investing activities	1,372	1,019
Net cash used in financing activities	<u>(84)</u>	<u>(36)</u>
Net increase in cash and cash equivalents from discontinued operations	<u>885</u>	<u>1,669</u>

Note 6. Assets classified as held for sale

	Consolidated	
	31 Dec 2022	30 Jun 2022
	\$'000	\$'000
<i>Current assets</i>		
Cash on hand and at bank	2,916	-
Contract assets - accrued management and performance fees	312	-
Prepayments and security deposits	105	-
Investments accounted using the equity method	1,279	-
Leasehold improvements	39	-
Goodwill	920	-
Right-of-use assets	136	-
Other receivables	15	-
	<u>5,722</u>	<u>-</u>

Note 7. Liabilities directly associated with assets classified as held for sale

	Consolidated	
	31 Dec 2022	30 Jun 2022
	\$'000	\$'000
<i>Current liabilities</i>		
Trade payables	48	-
Accrued expenses	48	-
Payable to non-controlling interests	2,133	-
Lease liability	141	-
	<u>2,370</u>	<u>-</u>

Note 8. Financial assets at fair value through other comprehensive income

	Consolidated	
	31 Dec 2022	30 Jun 2022
	\$'000	\$'000
<i>Non-current assets</i>		
Investments in listed equity securities	<u>6,357</u>	<u>6,046</u>

Refer to note 16 for further information on fair value measurement.

Note 9. Intangibles

	Consolidated	
	31 Dec 2022	30 Jun 2022
	\$'000	\$'000
<i>Non-current assets</i>		
Goodwill - at cost	<u>40,860</u>	<u>43,553</u>
Acquired relationships - at cost	26,768	26,768
Less: Accumulated amortisation	<u>(13,069)</u>	<u>(11,848)</u>
	<u>13,699</u>	<u>14,920</u>
	<u>54,559</u>	<u>58,473</u>

Note 9. Intangibles (continued)

Reconciliations

Reconciliations of the written down values at the beginning and end of the current financial half-year are set out below:

Consolidated	Goodwill \$'000	Acquired relationships \$'000	Total \$'000
Balance at 1 July 2022	43,553	14,920	58,473
Classified as held for sale (note 6)	(920)	-	(920)
Amortisation expense	-	(1,221)	(1,221)
Adjustments to acquisition reserve (note 13)	(1,773)	-	(1,773)
	<u>40,860</u>	<u>13,699</u>	<u>54,559</u>
Balance at 31 December 2022	<u>40,860</u>	<u>13,699</u>	<u>54,559</u>

Note 10. Right-of-use assets

	Consolidated	
	31 Dec 2022	30 Jun 2022
	\$'000	\$'000
<i>Non-current assets</i>		
Right-of-use assets	5,930	1,686
Less: Accumulated depreciation	<u>(1,898)</u>	<u>(1,399)</u>
	<u>4,032</u>	<u>287</u>

On 30 March 2022, a five-year lease for new business premises at Governor Philip Tower, Level 27, 1 Farrer Place, Sydney was signed. The lease commenced on 8 July 2022 at which time a lease asset of \$3,446,000 and a lease liability of \$3,340,000 was recognised.

On 8 December 2022, a new five-year lease for existing business premises at Level 7, 100 Collins Street, Melbourne commenced at which time a lease asset of \$934,000 and a lease liability of \$853,000 was recognised.

Reconciliations

Reconciliations of the written down values at the beginning and end of the current financial half-year are set out below:

Consolidated	Office premises \$'000	Others \$'000	Total \$'000
Balance at 1 July 2022	278	9	287
Additions	4,380	-	4,380
Classified as held for sale (note 6)	(136)	-	(136)
Depreciation expense	(496)	(3)	(499)
	<u>4,026</u>	<u>6</u>	<u>4,032</u>
Balance at 31 December 2022	<u>4,026</u>	<u>6</u>	<u>4,032</u>

Note 11. Trade and other payables

	Consolidated	
	31 Dec 2022	30 Jun 2022
	\$'000	\$'000
<i>Current liabilities</i>		
Trade payables	-	12
Accrued expenses	1,951	4,496
Fund manager profit share	1,826	2,005
Payable to non-controlling interests	-	1,861
Other payables	213	283
	<u>3,990</u>	<u>8,657</u>

Note 12. Contributed equity

	Consolidated			
	31 Dec 2022	30 Jun 2022	31 Dec 2022	30 Jun 2022
	Shares	Shares	\$'000	\$'000
Ordinary shares - fully paid	110,109,358	108,748,050	132,934	130,476
Less: Treasury shares	<u>(26,695,314)</u>	<u>(25,379,961)</u>	<u>(34,025)</u>	<u>(31,617)</u>
	<u>83,414,044</u>	<u>83,368,089</u>	<u>98,909</u>	<u>98,859</u>

Movements in ordinary share capital

Details	Date	Shares	\$'000
Balance	1 July 2022	108,748,050	130,476
Share buy-back	1 July 2022	(1,047)	(2)
Issue of shares under the Pengana Capital Group Loan Share Plan	8 September 2022	1,165,000	1,992
Issue of shares under the Pengana Capital Group Loan Share Plan	25 October 2022	571,000	976
Share buy-back	28 October 2022	(373,645)	(430)
Recognise loss on compulsory divestiture of treasury shares		-	(78)
Balance	31 December 2022	<u>110,109,358</u>	<u>132,934</u>

Movements in treasury shares

Details	Date	Shares	\$'000
Balance	1 July 2022	(25,379,961)	(31,617)
Derecognise treasury shares on loan repayment	1 July 2022	47,002	55
Issue of shares under the Pengana Capital Group Loan Share Plan	8 September 2022	(1,165,000)	(1,992)
Issue of shares under the Pengana Capital Group Loan Share Plan	25 October 2022	(571,000)	(976)
Derecognise treasury shares on compulsory divestiture	28 October 2022	373,645	505
Balance	31 December 2022	<u>(26,695,314)</u>	<u>(34,025)</u>

Share buy-back

During the half-year, in order to effect a compulsory divestiture of a participants loan plan shares, the company bought back 373,645 invested loan share plan shares for \$430,000, being an amount equal to that part of the participants loan balance attributable to those plan shares.

During the half-year, the company bought back 1,047 shares at the cost of \$2,000. The buy-back program expires on 14 September 2023 and allows a maximum of 10,318,467 shares to be bought back.

Note 13. Reserves

	Consolidated	
	31 Dec 2022	30 Jun 2022
	\$'000	\$'000
Profits reserve	20,092	26,766
Foreign currency reserve	22	31
Share-based payments reserve	7,756	7,557
Financial assets at fair value through other comprehensive income (OCI) reserve	(981)	(1,199)
Acquisition reserve	-	2,712
	<u>26,889</u>	<u>35,867</u>

Movements in reserves

Movements in each class of reserve during the current financial half-year are set out below:

Consolidated	Profits reserve \$'000	Foreign currency reserve \$'000	Share-based payments reserve \$'000	Financial assets at fair value through OCI reserve \$'000	Acquisition reserve \$'000	Total \$'000
Balance at 1 July 2022	26,766	31	7,557	(1,199)	2,712	35,867
Revaluation, net of tax	-	-	-	218	-	218
Foreign currency translation	-	(9)	-	-	-	(9)
Dividend paid	(6,674)	-	(138)	-	-	(6,812)
Share-based payments	-	-	337	-	-	337
Adjustments to non-controlling interest and goodwill	-	-	-	-	(2,712)	(2,712)
Balance at 31 December 2022	<u>20,092</u>	<u>22</u>	<u>7,756</u>	<u>(981)</u>	<u>-</u>	<u>26,889</u>

Note 14. Dividends

Dividends paid during the financial half-year were as follows:

	Consolidated	
	31 Dec 2022	31 Dec 2021
	\$'000	\$'000
On 24 August 2022, a fully franked final dividend of 8.0 cents per ordinary share was declared for the year ended 30 June 2022 and paid on 13 September 2022 to the shareholders registered on 30 August 2022 (31 December 2021: 8.0 cents per ordinary share).	<u>6,812</u>	<u>6,705</u>

On 24 February 2023, the directors declared a fully franked interim dividend for the half-year ended 31 December 2022 of 2.0 cents per ordinary share. The dividends will be paid on 16 March 2023 to eligible shareholders on the register on 2 March 2023.

Note 15. Share-based payments

Effective 1 July 2022, to facilitate the retention of key employees, the company has adopted a plan called the Pengana Capital Group Limited Rights Plan (Rights Plan) whereby, subject to board approval rights are granted to key employees. Each right has a 15 year term, a service vesting condition of between two to four years and an exercise price of \$ Nil. Dividend equivalents are payable in respect of vested rights for so long as the participant remains an employee. Issued rights may be settled in the form of cash or shares at the Boards sole discretion. On 27 September 2022, 864,198 rights were issued.

Note 16. Fair value measurement

Fair value hierarchy

The following tables detail the group's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2: Observable market data used in valuation techniques to determine the fair value. Level 2 instruments are not traded in an active market

Level 3: Unobservable inputs for the asset or liability

Consolidated - 31 Dec 2022	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<i>Assets</i>				
Financial assets at fair value through other comprehensive income	6,357	-	-	6,357
Total assets	6,357	-	-	6,357
Consolidated - 30 Jun 2022				
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<i>Assets</i>				
Investments in financial assets at fair value through profit or loss	1,420	-	-	1,420
Financial assets at fair value through other comprehensive income	6,046	-	-	6,046
Total assets	7,466	-	-	7,466

There were no transfers between levels during the financial half-year.

The carrying amounts of trade and other receivables and trade and other payables approximate their fair values due to their short-term nature.

The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial liabilities.

Note 17. Earnings per share

	Consolidated	
	31 Dec 2022	31 Dec 2021
	\$'000	\$'000
<i>Earnings per share for profit from continuing operations</i>		
Profit after income tax	1,061	16,204
Non-controlling interest	-	-
Profit after income tax attributable to the owners of Pengana Capital Group Limited	1,061	16,204
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	83,414,044	83,750,226
Adjustments for calculation of diluted earnings per share:		
Dilutive impact of treasury shares accounted for as options	4,215,377	6,271,169
Dilutive impact of service rights	68,115	-
Weighted average number of ordinary shares used in calculating diluted earnings per share	87,697,536	90,021,395

Note 17. Earnings per share (continued)

	Cents	Cents
Basic earnings per share	1.27	19.35
Diluted earnings per share	1.21	18.00
	Consolidated	
	31 Dec 2022	31 Dec 2021
	\$'000	\$'000
<i>Earnings per share for loss from discontinued operations</i>		
Loss after income tax	(852)	(750)
Non-controlling interest	113	52
Loss after income tax attributable to the owners of Pengana Capital Group Limited	<u>(739)</u>	<u>(698)</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	83,414,044	83,750,226
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>83,414,044</u>	<u>83,750,226</u>
	Cents	Cents
Basic earnings per share	(0.89)	(0.83)
Diluted earnings per share	(0.89)	(0.83)
	Consolidated	
	31 Dec 2022	31 Dec 2021
	\$'000	\$'000
<i>Earnings per share for profit</i>		
Profit after income tax	209	15,454
Non-controlling interest	113	52
Profit after income tax attributable to the owners of Pengana Capital Group Limited	<u>322</u>	<u>15,506</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	83,414,044	83,750,226
Adjustments for calculation of diluted earnings per share:		
Dilutive impact of treasury shares accounted for as options	4,215,377	6,271,169
Dilutive impact of service rights	68,115	-
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>87,697,536</u>	<u>90,021,395</u>
	Cents	Cents
Basic earnings per share	0.39	18.51
Diluted earnings per share	0.37	17.22

The weighted average number of ordinary shares to calculate basic earnings per share excludes 26,695,314 (31 December 2021: 25,489,961) treasury shares.

Note 18. Events after the reporting period

Effective 1 January 2023, the group divested its 65% direct equity stake in Lizard Investors LLC ('Lizard') to facilitate a restructure that was recommended following a strategic review that recognised the group is better placed to focus on significant growth opportunities in the Australian market, whilst Lizard would be better positioned to grow under full employee ownership. Refer to note 5 of notes to the financial statements for further details.

Apart from the dividend declared as disclosed in note 14, no other matter or circumstance has arisen since 31 December 2022 that has significantly affected, or may significantly affect the group's operations, the results of those operations, or the group's state of affairs in future financial years.

Note 19. General information

Pengana Capital Group Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Suite 27.01
Level 27, Governor Philip Tower
1 Farrer Place
Sydney, NSW, 2000

A description of the nature of the group's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 24 February 2023.

Pengana Capital Group Limited
Directors' declaration
31 December 2022

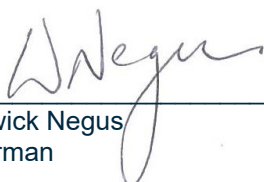


In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes give a true and fair view of the group's financial position as at 31 December 2022 and of its performance for the financial half-year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors



Warwick Negus
Chairman

24 February 2023
Sydney



Russel Pillemer
Chief Executive Officer

Independent Auditor's Report

To the Members of Pengana Capital Group Limited

Report on the half year financial report

Conclusion

We have reviewed the accompanying half year financial report of Pengana Capital Group Limited (the "Company") and its subsidiaries (the "Group"), which comprises the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half year ended on that date, a description of accounting policies, other selected explanatory notes, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the accompanying half-year financial report of Pengana Capital Group Limited does not comply with the *Corporations Act 2001* including:

- a giving a true and fair view of the Pengana Capital Group Limited's financial position as at 31 December 2022 and of its performance for the half year ended on that date; and
- b complying with Accounting Standard AASB 134 *Interim Financial Reporting and the Corporations Regulations 2001*.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the Auditor's Responsibilities for the Review of the Financial Report section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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Directors' responsibility for the half-year financial report

The Directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2022 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting and the Corporations Regulations 2001*.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



Grant Thornton Audit Pty Ltd
Chartered Accountants



N M Gonzalez
Partner – Audit & Assurance

Sydney, 24 February 2023



PENGANA
CAPITAL GROUP

**PENGANA
CAPITAL GROUP
LIMITED**



PENGANA

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