



# Pengana High Conviction Equities Fund

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



**Superior**

October 2024

# 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

This Research Report is current as at the date on the report until it is replaced, updated or withdrawn. SQM Research reports are generally valid for a term of approximately 12 months but may be replaced, withdrawn or changed at any time as judged appropriate by SQM Research.

## Star Rating

Investment products are awarded a star rating out of a possible five stars and placed on the following website:  
[www.sqmresearch.com.au](http://www.sqmresearch.com.au)

Star Rating**	Description	Definition	
4½ stars and above	Outstanding	<b>Highly suitable for inclusion on APLs</b> <i>SQM Research believes the Fund has substantial potential to outperform over the medium-to-long term. Past returns have typically been very strong. Product disclosure statement (PDS) compliance processes are high-calibre. There are no corporate governance concerns. Management is extremely experienced, highly skilled and has access to significant resources.</i>	Highest Investment Grade
4¼ stars	Superior	<b>Suitable for inclusion on most APLs</b> <i>SQM Research considers the Fund has considerable potential to outperform over the medium-to-long term. Past returns have tended to be strong. PDS compliance processes are high-quality. There are no material corporate governance concerns. Management is of a very high calibre.</i>	High Investment Grade
4 stars	Superior	<b>Suitable for inclusion on most APLs</b> <i>In SQM Research's view, the Fund has an appreciable potential to outperform over the medium-to-long term. Historical performance has tended to be meaningful. PDS compliance processes are strong. There are very little to no material governance concerns. Management is of a high calibre.</i>	High Investment Grade
3¾ stars*	Favourable	<b>Consider for APL inclusion</b> <i>SQM Research concludes the Fund has a moderate potential to outperform over the medium-to-long term. Past performance has tended to be reasonable. Management is experienced and displays investment-grade quality, however they may not be yet fully tested. As a result the manager/product may have higher risks attached compared to peers.</i>	Investment Grade
3½ stars*	Acceptable	<b>Consider for APL inclusion</b> <i>In SQM Research's view, the potential for future outperformance in the medium-to-long term is uncertain. Historical performance has tended to be modest or patchy. Management is generally experienced and displays investment-grade quality, however they may not be yet fully tested. As a result the manager/product may have higher risks attached compared to peers. SQM Research has identified material weaknesses which need addressing in order to improve confidence in the Manager. There might be some corporate governance concerns.</i>	Low Investment Grade
3¼ stars	Caution Required	<b>Not suitable for most APLs</b> <i>In SQM Research's opinion, the potential for future outperformance in the medium-to-long term is very uncertain. Historical returns have tended to be disappointing or materially below expectations. PDS compliance processes are potentially substandard. There might be material corporate governance concerns. Management quality is not of investment-grade standard.</i>	
3 stars	Strong Caution Required	<b>Not suitable for APL inclusion</b> <i>In SQM Research's opinion, the potential for future outperformance in the medium-to-long term is unlikely. Historical performance has tended to be unacceptable. There could be material corporate governance concerns. SQM Research has a number of concerns regarding management.</i>	
Below 3 stars	Avoid or Redeem	<b>Not suitable for APL inclusion</b> <i>SQM Research has multiple material concerns surrounding the Fund.</i>	
Event-driven Rating	Definition		
<b>Withdrawn</b>	<i>The rating is no longer applicable. Significant issues have arisen since the last report was issued, and investors should avoid or redeem units in the fund. The manager, after agreeing to be reviewed, has pulled out of the process and/or has not responded to our questionnaire.</i>		
<b>Hold</b>	<i>Rating is suspended until SQM Research receives further information. A rating is typically put on hold for a period of two days to four weeks. Dealer groups should not be making further investments into this fund until SQM has completed its additional investigations.</i>		

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

\*\* The definitions in the table above are not all encompassing and not all individual items mentioned will necessarily be relevant to the rated Fund. Users should read the current rating report for a comprehensive assessment.

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**Report Date: 29 October 2024**

## CONTENTS

<b>Summary</b>	<b>2</b>
Fund Summary	3
SQM Research's Review & Key Observations	3
Strengths of the Fund	5
Weaknesses of the Fund	5
Other Considerations	6
Key Changes since the Last Review	6
<b>Investment Process &amp; Portfolio Construction</b>	<b>7</b>
Investment Process Diagram	7
Process Description	7
<b>Corporate Governance / Business Strategy</b>	<b>12</b>
Key Counterparties	12
Parent Company	12
Investment Manager / Fund Manager	12
Responsible Entity	12
Management Risk	13
Funds under Management (FUM)	13
<b>Management &amp; People</b>	<b>14</b>
Investment Team	14
Staffing Changes	14
Remuneration and Incentives	14
<b>Product Features - Fees</b>	<b>15</b>
Management Fee	15
Performance Fee	15
<b>Quantitative Analysis</b>	<b>16</b>
Quantitative Insight	16
Return and Risk	19
<b>Asset Allocation &amp; Risk</b>	<b>21</b>
<b>Glossary</b>	<b>22</b>

**SQM Rating** ★★★★★

*Superior. Suitable for inclusion on most APLs.*

<b>Fund Description</b>	
Fund Name	Pengana High Conviction Equities Fund
APIR code	Class A: HHA0020AU; Class B: PCL9196AU
Asset Class	Global Equities (Small-Mid Caps)
<b>Management and Service Providers</b>	
Fund Manager	Pengana Capital Ltd
Responsible Entity	Pengana Capital Ltd
Custodian	BNP Paribas
<b>Fund Information</b>	
Fund Inception Date	Class A: 11 Dec 2014; and Class B: 15 July 2020
Fund Size	\$81.52 million (as of September 2024)
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	As above
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	Currently: 15 (as of September 2024); Max allowed: 20 securities
Fund Leverage	None
Turnover	Approximately 85% p.a. (3-year average)
Top 10 Holdings Weight	Approximately 83.4%
<b>Investor Information</b>	
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	Class A: 3.02% (incl perf. fee of 1.03%) and Class B 2.23% (incl perf. fee of 0.98%)
Buy Spread	0.25%
Sell Spread	0.25%
Performance Fee	Class A: 15.38% (including GST net of RITC) of the Class return in excess of the Fund's hurdle of the RBA Cash Rate +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”) 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 most 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 November 2023)

## SQM Research’s Review & Key Observations

### 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 **40%** of the business, which is profitable. Pengana manages about **A\$3.32 billion** and has about **57** staff members.

### Investment Team

The Fund’s investment team comprises of **2** Portfolio Managers - **James McDonald** and **Jeremy Bendeich**.

The Portfolio Managers have joint responsibility for the management of the Fund, including research, portfolio management and trading. They act as backups to each other and cover for one another in each other’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. It 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”.***

## 1. 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, material** 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 and 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, materials** 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 an ethical **negative screening** that removes companies from the investable universe (as outlined above). 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.

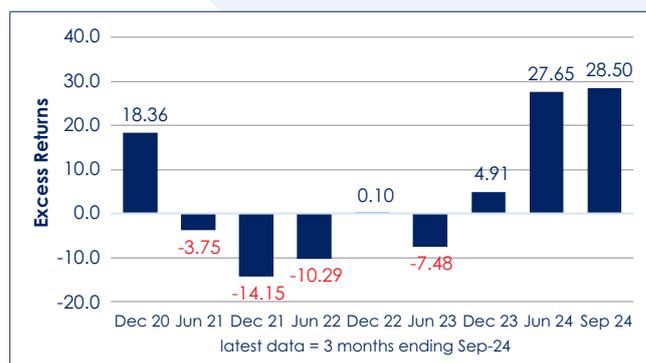
**2. Performance & Risk**

**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 **9.8** 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"**.

'Class A' units Performance to 30 September 2024 (% p.a.)							
Total Return	1-Month	3-Month	6-Month	1-Year	3-Year	5-Year	Inception
Fund	7.23	30.89	40.53	107.91	20.03	19.11	27.51
Benchmark	-0.41	2.39	2.66	23.20	10.56	12.41	12.11
Peer Average	0.32	2.79	1.71	25.63	3.84	11.14	12.44
Alpha	7.63	28.50	37.87	84.71	9.47	6.70	15.40

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

## SUMMARY

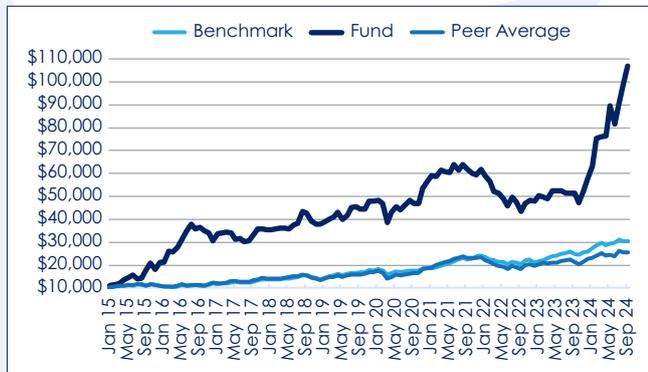
'Class B' units Performance to 30 September 2024 (% p.a.)							
Total Return	1-Month	3-Month	6-Month	1-Year	3-Year	5-Year	Inception
Fund	6.76	29.68	37.79	102.85	19.63	N/A	22.09
Benchmark	-0.41	2.39	2.66	23.20	10.56	N/A	14.85
Peer Average	-0.03	6.49	1.74	19.10	3.09	N/A	11.83
Alpha	7.16	27.29	35.13	79.65	9.07	N/A	7.25

With distributions reinvested. Returns beyond one year are annualised. Return history starts Aug-2020

Benchmark: MSCI World NR AUD

*(It should be noted that the rest of the report uses performance data for the 'Class A' units, and hence, the analysis/comments in the report are based on this initial class of units).*

## Growth of \$10,000



## Strengths of the Fund

- Pengana has built a long track record of managing money across various funds, specialising in Australian & International Equities. Pengana manages about **\$3.32 billion** in FUM and has about **57** employees.
- The Fund's investment team is highly experienced and knowledgeable. Both PMs - James McDonald and Jeremy Bendeich, have over 28 years of industry experience.
- The investment/research process is robust and has been consistently implemented by the manager.
- The Fund has a **highly flexible mandate**, a **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 demonstrated extremely strong outperformance in comparison to peers and benchmark across all the periods since inception on an absolute and risk-adjusted basis (as reflected in Sharpe and Information ratio). However, most of the outperformance can be attributed to the attractive

returns generated in the last 12 months.

- The Fund has demonstrated strong defensive quality over a longer timeframe (as against the benchmark – MSCI World Total Returns Index), with a downside capture of **-21.1%** since inception, likely generating positive returns during market downturns (**negative benchmark returns**) and **preserving capital**. Compared to its peers, this is way better, which had a downside capture of **107.1%** over the same period. Even in the shorter time frame (3 years), the Fund's downside and upside capture ratio are more impressive than its peers.
- The manager has the freedom to invest within a broad opportunity set but maintains a strong bias towards 3-4 sectors, narrowing the focus. The manager does not rely on a backward screening process; instead, the strategy is focused more on a forward-looking, high conviction investing approach. The superior performance of the Fund is a true reflection of the manager's skills in-stock selection and capitalising on focused opportunities while staying aligned with the Fund's True-to-Label strategy and concentrated portfolio construction approach.

## Weaknesses of the Fund

- The Fund's Portfolio Management team has not worked together for a long period of time..
- 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 RBA Cash Rate +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 (TCR) charged for the 'Class B' units, whilst higher than the peer average, is comparatively reasonable.*

- The Board of Directors of the Responsible Entity (Pengana Capital Limited or PCL) has no independent directors. SQM Research prefers the inclusion of independent members on the Board of Directors as it is a meaningful way to enhance governance and oversight.

#### 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.
- The team/Fund has a strong bias toward investing in **healthcare, materials, 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 has averaged about **36%** since April 2017), with very significant variations – a low of **8%** and a high of **63%**. Similarly, country allocations can vary significantly between the USA, Europe, and Australia, and so can the cash allocations.
- The Fund is **Unhedged** and will, therefore, be impacted by currency movements (either positively or negatively).
- The Active Share is significantly high at about 90-95%; allocation to non-index stocks is significantly high at around 90% in the last 12 months; the Beta Vs MSCI World Index varies significantly.
- The Fund is significantly more volatile, even for a concentrated fund, than the benchmark and the peer group average. However, SQM Research notes that this is to be expected from a highly concentrated, benchmark-unaware style of the Fund with a strong sectoral bias and underlying holdings of small-cap & non-index stocks.
- With some of the investment guidelines and exposure limits changed from last year (mentioned below), it gives additional flexibility to the fund manager to allocate more weightage to the

high-conviction ideas and capitalise on strong investment opportunities, potentially enhancing returns if these securities do outperform. However, this also introduces a risk of concentration and underperformance in case of a high-conviction investment thesis failure.

#### Key Changes since the Last Review

- On the basis of review conducted in response to feedback from investors, investment guidelines for the Fund have been updated accordingly as under:
  - **Max exposure to single security increased to 30%**
  - **Max exposure to materials increased to 50%**
  - **Max exposure to Australia removed**

## Investment Process Diagram

Upside	Risk	Implied weight
<ul style="list-style-type: none"> <li>Discount to intrinsic value</li> <li>Business model</li> <li>Quality / experience of management</li> <li>Identify catalyst for re-rating</li> </ul>	<ul style="list-style-type: none"> <li>Market cap and liquidity</li> <li>Financial risk</li> <li>Cyclicality of earnings</li> <li>Country risk</li> </ul>	<ul style="list-style-type: none"> <li>Target allocation ranges are determined based on a stocks potential upside versus its risk</li> </ul>
<ul style="list-style-type: none"> <li>The portfolio is created from the best ideas and within the risk management guidelines.</li> <li>It will contain no more than 20 securities and a single security may comprise up to 30% of the portfolio.</li> <li>Broad asset allocation ranges provide flexibility to respond to changing market conditions and opportunities.</li> <li>The portfolio is unhedged.</li> </ul>		

## 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

Stock idea generation relies heavily on the accumulated investment knowledge and experience of the Portfolio Managers. Watchlists are maintained as part of this process. 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.
- 3D research – competitors or client/supplier of a current candidate
- Quantitative screens – quality and valuation metrics
- Experience – The 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

The team utilises a **negative screening** process that seeks to avoid investment in companies that derive operating revenues from direct and material business involvement in the following sectors: Alcohol, Adult content, Animal cruelty, Gambling, Human rights abuses and exploitation, Nuclear, Securities from issuers on UN sanctions list, Tobacco, Uranium mining, Weapons.

## Investment Process

### Research and Portfolio Construction Process

*...continued*

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.

### Research & Stock Selection

The team conducts proprietary fundamental research and builds financial models on each of its target investments. Priority is given to research ideas that prima facie have the greatest upside. These ideas are generated from many sources, such as watch lists, broker research and general reading. From time to time, the team will discuss certain themes, such as renewable energy, and focus efforts on generating ideas for further research in that sector.

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 towards investing in **healthcare, materials, and technology** sectors and is less likely invested in **financials**.

Before a company is added to the 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.

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.

## Investment Process

### Research and Portfolio Construction Process

Company meetings are documented, key issues are highlighted, and existing investment cases are revisited. Relevant information is reflected in the company's valuation model. Fund managers document the basis for their investment recommendation in a research paper, which includes a section on ESG issues that are likely to have a financial impact.

### ...continued

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

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

- Market cap and liquidity: 15%
- Financial risk: 35%
- Cyclicity of earnings: 35%
- Country risk: 15%

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-adjusted NPVs 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

### 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

## Investment Process

Research  
and Portfolio  
Construction  
Process*...continued***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.

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.

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.

**Material Risks**

Material risks which are associated with the Fund include:

**Market Risk:** Economic, technological, political or legal conditions, and market sentiment change can affect the value of the investments in the Fund.

**Concentration Risk:** The concentrated nature of the Fund's investments may reduce the potential benefit of diversification. It may, therefore, experience higher volatility than a more diversified portfolio.

**Idiosyncratic Risk:** The value of the Fund's portfolio may be affected by unexpected changes in the value of the investments in the portfolio. Such changes may be due to unexpected company specific issues that impact the market value of the individual investments.

**International Investing Risk:** The Fund primarily holds investments in global securities listed on approved exchanges. Risks of international investing may include currency fluctuations, foreign tax, different markets, settlement practices, and investment restrictions.

**Fund Risk:** Risks particular to the Fund include the risk that the Fund could terminate and the fees and expenses payable by the Fund could change.

**Currency Risk:** The Fund will invest in various countries including Australia. If the currencies of those other countries change in value relative to the Australian dollar, the value of these investments may change and may negatively affect the Fund's return.

**Liquidity Risk:** This is the risk that an investment may not be able to be sold quickly enough to prevent or minimise a loss. This risk may be high as the Fund may hold large positions in less liquid stocks.

## Investment Process

### Research and Portfolio Construction Process

...continued

### Hedging & Derivatives

Currency risk is not hedged. Derivatives will not be used for the purpose of leverage and the Fund's net exposure will never be short. Derivatives may be used to:

- Achieve long or short exposures;
- Reduce risk; and
- Reduce transaction costs

### Portfolio Characteristics

#### Portfolio Biases/Preferences

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. The Fund may have **sector** and **regional biases**, but these will change over time depending on the stocks invested in. Its bias toward small and mid-cap companies is more likely to be persistent. Investments are more likely to be in the **healthcare, materials, 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, and the environment. Therefore, the Fund utilises a **negative screening** process that removes companies from the investable universe that derive operating revenues from direct and material business involvement in these sectors.

#### 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, therefore, 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. The 3-year average portfolio turnover is around **85%**. Historically, it has been up to **130%** in times of increased market volatility.

#### Liquidity

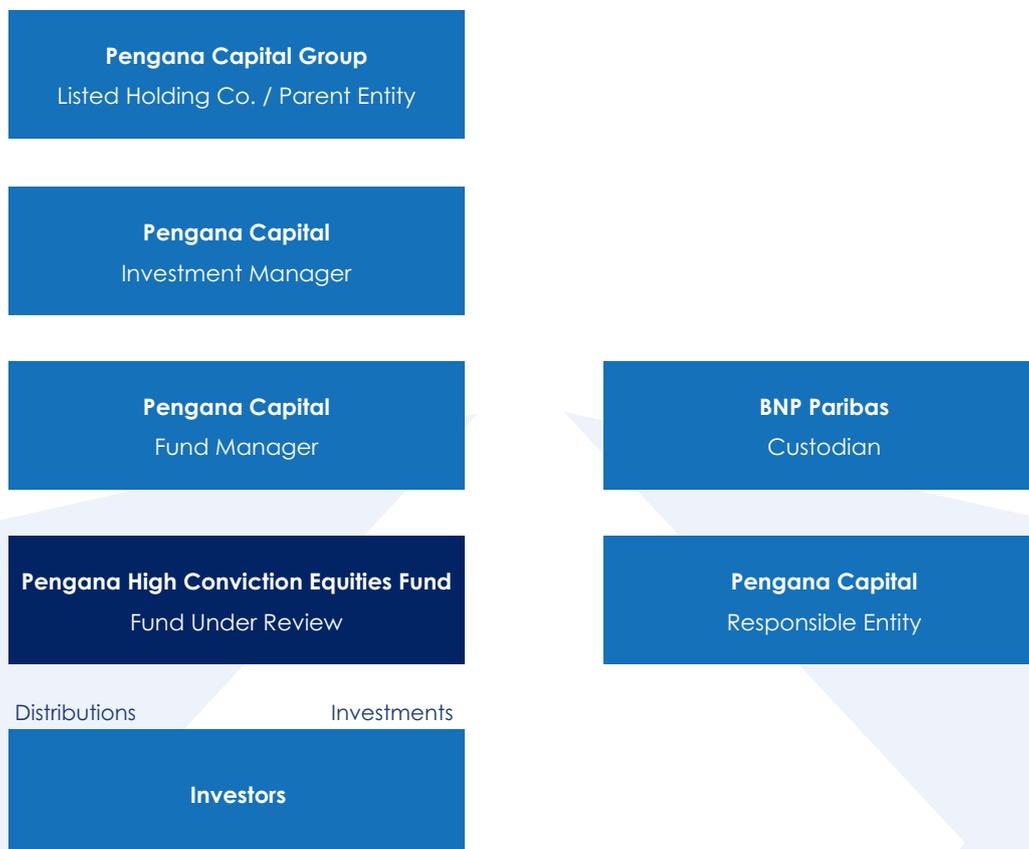
There are **no formal liquidity limits**; however, the liquidity of individual positions and the overall portfolio is monitored daily to ensure they are commensurate with the Fund's mandate and objective. A stock's liquidity is part of the '**Risk Score**'.

Pengana has advised that **50%** of the portfolio can be liquidated in **<30 days**, assuming a **30% participation rate**. Pengana considers the liquidity of the overall fund and as share prices rise liquidity increases. The fund has some smaller new less liquid holdings but believe that liquidity will improve over the next year. *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 not employ direct leverage (through borrowing by the Fund) **or** economic leverage (through the use of derivatives).

## 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 **40%** of the business, which is profitable.

## Investment Manager / Fund Manager

Pengana Capital Limited ("PCL"; AFSL 226 566 granted 7 May 2003) is a wholly owned subsidiary of Pengana Capital Group Limited ('PCG').

## 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.

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)**

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.

Distribution Date	Distribution CPU
Jun-16	42.53
Dec-16	5.00
Jun-17	50.74
Jun-18	62.64
Jun-19	14.35
Jun-20	7.50
Jun-21	15.44
Jun-23	0.69
Jun-24	60.66

Name	Responsibility / Position	Location	Years at Firm	Years in Industry
James McDonald	Portfolio Manager	Sydney	21.0	27.0
Jeremy Bendeich	Portfolio Manager	Sydney	3.0	30.5

### Investment Team

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

The Portfolio Managers have joint responsibility for the management of the Fund, including research, portfolio management and trading. They act as backups to each other and cover for one another in each other's absence.

Both managers are generalists, although they may individually focus on particular areas of expertise.

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

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

*SQM Research observes that the levels of investment experience are strong. The size and nature of the recent staff turnover in the broader Equities team (notwithstanding their limited input into this Fund) are a negative, 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%	0.97%
Expense Recovery (% p.a.)	0.19%	–	
Performance Fee (%)	15.38%	20.00%	7.24%
Total Cost Ratio (TCR) (% p.a.)	3.02%	2.23%	1.20%
Buy Spread (%)	0.25%	0.25%	0.24%
Sell Spread (%)	0.25%	0.25%	0.24%

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

\*\* Peer average is based on data provided by SQM's data provider. SQM is not responsible for any errors or omissions.

**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 1.80%, which is 83 basis points higher than the peer group average of 0.97%. The TCR (or Total Cost Ratio) of the Fund is 3.02%, which is 182 bps higher than the peer group average of 1.20%, this is due to the exceptional outperformance in recent times.**
- **For 'Class B' units: The Fund management fee is 1.25%, which is 28 basis points higher than the peer group average of 0.97%. The TCR (or Total Cost Ratio) is 2.23%, which is 103 basis points higher than the peer group average of 1.20%, this is due to the exceptional outperformance in recent times.**
- **The performance fees (as a % of outperformance), at the above rates, are similar to the average of peers that charge a performance fee. However, the hurdle rate for the 'Class A' units is slightly low (considering the cash rate) and, therefore, easier to achieve. Consequently, in certain years, depending on market conditions (returns), the performance fees can be significantly higher than the peer average.**

Risk/Return Data to 30 September 2024							
Total Return	1-Month	3-Month	6-Month	1-Year	3-Year	5-Year	Inception
Fund	7.23	30.89	40.53	107.91	20.03	19.11	27.51
Benchmark	-0.41	2.39	2.66	23.20	10.56	12.41	12.11
Peer Average	-0.03	6.49	1.74	19.10	3.09	9.08	9.10
Alpha	7.63	28.50	37.87	84.71	9.47	6.70	15.40
Metrics				1-Year	3-Year	5-Year	Inception
Tracking Error (% p.a.) - Fund				27.05	20.41	18.02	23.98
Tracking Error (% p.a.) - Peer Average				10.35	8.77	9.16	7.45
Information Ratio - Fund				3.13	0.46	0.37	0.64
Information Ratio - Peer Average				-0.44	-0.87	-0.39	-0.04
Sharpe Ratio - Fund				3.38	0.69	0.74	1.01
Sharpe Ratio - Peer Average				0.94	0.03	0.45	0.51
Volatility - Fund (% p.a.)				30.66	24.86	23.28	25.27
Volatility - Peer Average (% p.a.)				15.69	14.97	16.17	14.03
Volatility - Benchmark (% p.a.)				9.61	11.75	11.92	11.27
Beta based on stated Benchmark				1.63	1.23	1.26	0.75

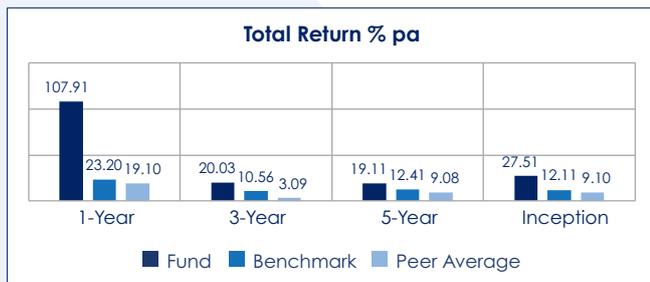
Distributions reinvested. Returns beyond one year are annualised. Return history starts Jan-2015  
 Benchmark: MSCI World NR AUD

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

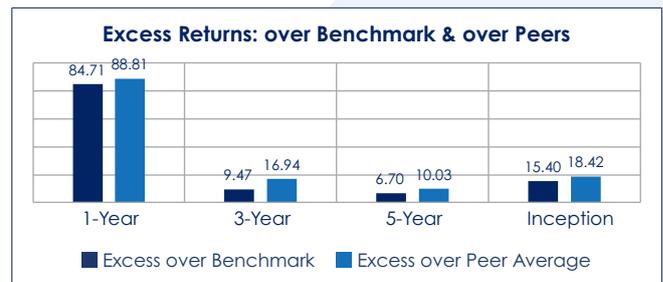
### Quantitative Insight<sup>1</sup>

**Note:** Unless otherwise stated, all return and risk data reported in this section are **after-fees** and for **periods ending Sept 2024**.

#### Returns



#### Excess Returns (Alpha)



The Fund has substantially outperformed both its benchmark and peers across all the periods, including since inception. Employing a highly concentrated investment strategy and being selective in picking stocks with high conviction was essentially a value add and a major driver of the Fund's outperformance.

**(SQM Research notes that last year's performance (where the Fund returned over 100%) has had an outsized impact on the returns of the fund over longer-dated periods, highlighting the potential of its concentrated portfolio. This also represents a risk for the Fund in the event that the drivers behind its high-conviction picks don't play out as the Manager expects).**

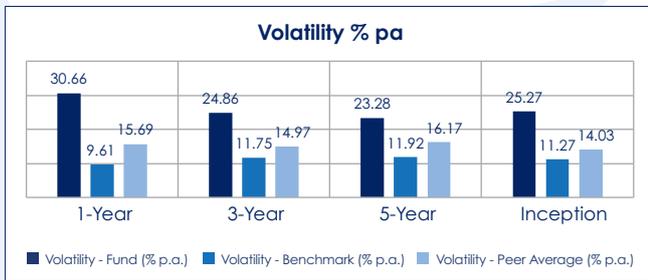
<sup>1</sup> Note: Sharpe and Information Ratios are not reliable comparison tools in periods where both the Fund and its peers/benchmark record a negative result

QUANTITATIVE ANALYSIS

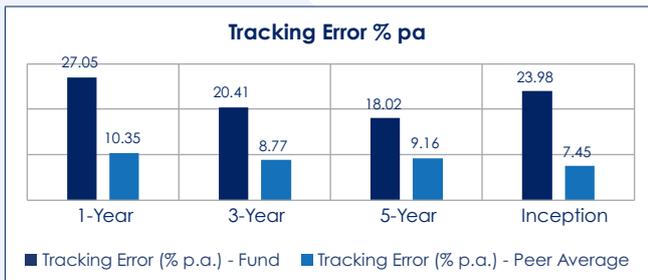
A brief note on the Fund's history (prior to the merger between Pengana and Hunter Hall in June 2017): From December 2014 (the Fund's inception) to January 2017, Peter Hall was the CIO of Hunter Hall, and James McDonald was the deputy CIO. After Peter Hall's resignation and then the Pengana-Hunter Hall 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.

Risk



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



The Fund's **tracking error** (annualised standard deviation of monthly excess returns) has tended to be substantially higher than the peers. **It should be noted that, as per the Manager, the stocks do not need to be included in the MSCI World Index to be eligible for inclusion in the portfolio.** The Fund's active share and substantial allocation to non-index stocks a key driver of the high tracking error.

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

Drawdowns

Drawdown Summary			
Drawdown Size (peak-to-trough)			
	Fund	Bench	Peers
Average	-10.25%	-4.79%	-8.00%
Number	12	17	13
Smallest	-0.05%	-0.87%	-0.86%
Largest	-32.06%	-15.95%	-24.51%
Length of Drawdown (in months)			
	Fund	Bench	Peers
Average	8.0	5.4	7.7

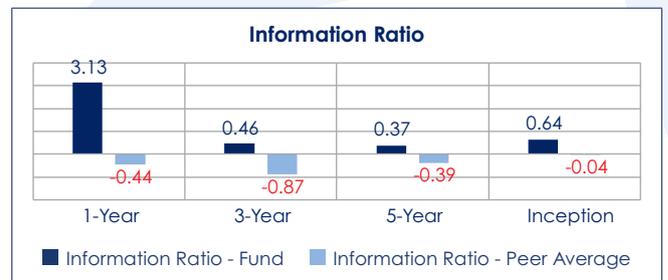
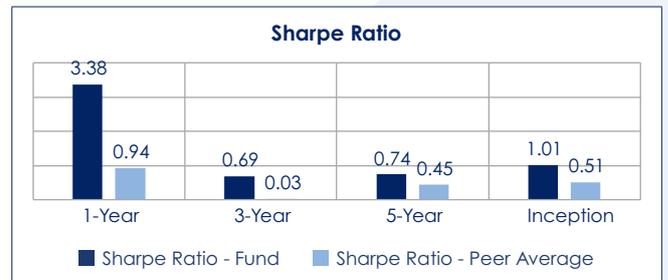
Length of Drawdown = time from peak to trough and back to the previous peak level

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

	Downside Capture		Upside Capture	
	3 years	Inception	3 years	Inception
Fund	86.3%	-21.1%	137.5%	107.8%
Peer Average	129.0%	107.1%	88.5%	93.1%

for a cash benchmark, downside capture is not valid

Risk-Adjusted Returns



The Fund's risk-adjusted returns (as measured by Sharpe and Information ratios) have been materially better than the peer average across all the periods. **SQM Research notes that the superior risk-adjusted return in the last 1 year is a result of the significant outperformance of the fund over its peers.**

**Correlation of Fund to Asset Classes**

Market	3 years	Inception	Market Indexes
Aust Bonds	+51.8%	+28.4%	Bloomberg AusBond Composite 0+Y TR
Aust Equity	+49.0%	+37.0%	S&P/ASX 300 TR
Global Bonds	+53.1%	+32.5%	Bloomberg Global Aggregate Hdg AUD
Global Equity	+57.8%	+33.2%	MSCI World Ex Australia NR AUD

**Correlation Key**

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

**Tail Risk**

*(The analysis in the table below looks at the **tail risk performance relationship of the Fund to the ASX300**, a practice that SQM has set as common across asset classes in Fund reviews. This approach recognises that for the large bulk of financial planner clients, their key traditional asset class **risk** regarding **size** and **volatility** is to Australian equities. Exploring that relationship is useful regardless of the asset class of the Fund itself, as it is helpful to understand how a Fund has acted in times of Australian equity market stress in terms of softening or exaggerating the negative performance experienced at such times.)*

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

**Extreme Market Returns vs Fund Return Same Month**

Index: S&P/ASX 300 TR		From Jan-15 to Sep-24		
Rank	Date	Market	Fund	Difference
1	Mar-20	-20.83%	-17.66%	+3.17%
2	Jun-22	-8.97%	-6.85%	+2.11%
3	Feb-20	-7.76%	-3.14%	+4.62%
4	Aug-15	-7.70%	+1.73%	+9.43%
5	Jan-22	-6.45%	-4.94%	+1.51%
6	Sep-22	-6.29%	-9.23%	-2.94%
7	Oct-18	-6.16%	-7.81%	-1.66%
8	Jan-16	-5.45%	-0.05%	+5.40%
9	Jun-15	-5.32%	+6.74%	+12.06%
10	Oct-23	-3.80%	-7.91%	-4.11%
<b>Totals</b>		<b>-78.74%</b>	<b>-49.13%</b>	<b>+29.61%</b>

			No. of Months
<b>Correlation</b>	+64.2%	Positive Return	2
<b>Capture</b>	+62.4%	Outperform	7

**Tail Risk Observations:**

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

**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.

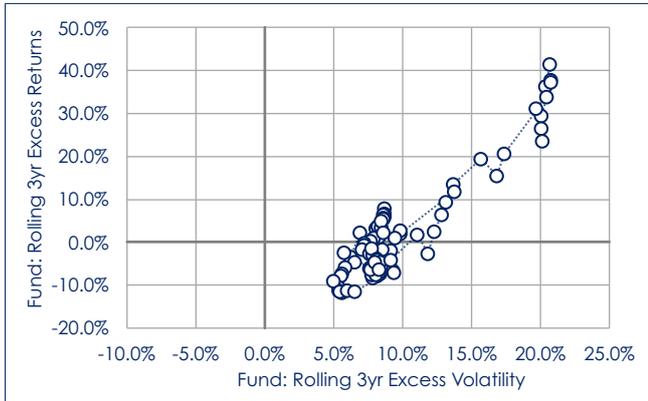
There are **82** observations in total.

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
<b>Hi-Return</b>	0	37	37
<b>Lo-Return</b>	0	45	45
<b>Total</b>	<b>0</b>	<b>82</b>	<b>82</b>

82 rolling 3-year observations			
% of Total	Lo-Vol	Hi-Vol	Total
<b>Hi-Return</b>	0.0%	45.1%	45.1%
<b>Lo-Return</b>	0.0%	54.9%	54.9%
<b>Total</b>	<b>0.0%</b>	<b>100.0%</b>	<b>100.0%</b>

QUANTITATIVE ANALYSIS



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**

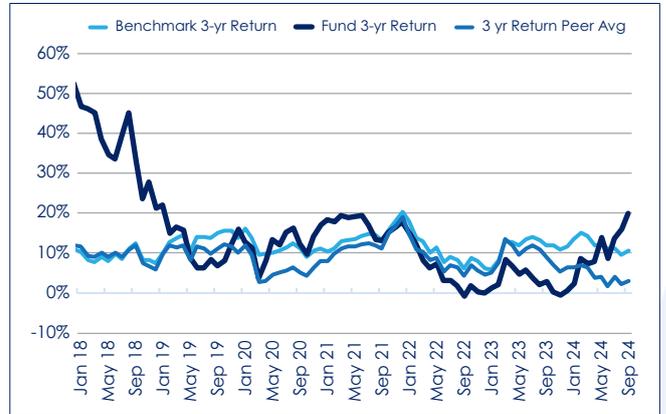
Year	Fund	Benchmark	Peer Avg	vs. Bench	vs. Peers
2015	+113.48	+11.50	+11.79	<b>+101.99</b>	<b>+101.69</b>
2016	+43.90	+8.02	+11.05	<b>+35.88</b>	<b>+32.85</b>
2017	+15.17	+13.32	+13.48	<b>+1.85</b>	<b>+1.69</b>
2018	+7.18	+1.42	-5.53	<b>+5.76</b>	<b>+12.70</b>
2019	+26.50	+27.86	+27.29	<b>-1.36</b>	<b>-0.79</b>
2020	+18.34	+5.58	+11.14	<b>+12.75</b>	<b>+7.20</b>
2021	+9.20	+29.29	+24.92	<b>-20.09</b>	<b>-15.71</b>
2022	-22.91	-12.24	-16.92	<b>-10.67</b>	<b>-5.99</b>
2023	+20.56	+23.03	+16.11	<b>-2.47</b>	<b>+4.45</b>
Sep-24	+85.63	+16.91	+12.47	<b>+68.73</b>	<b>+73.16</b>

2024 data = 9 months ending Sep-24

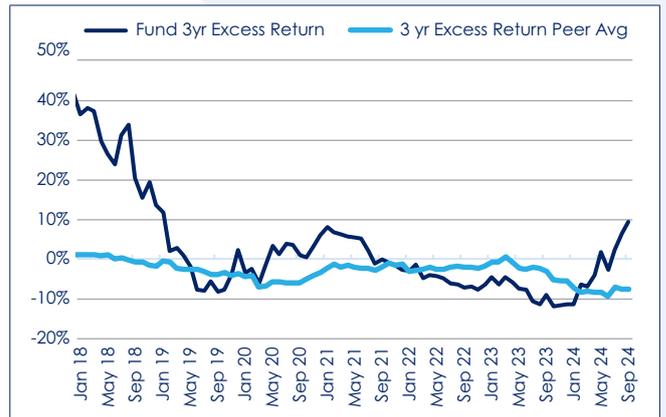


**Return and Risk**

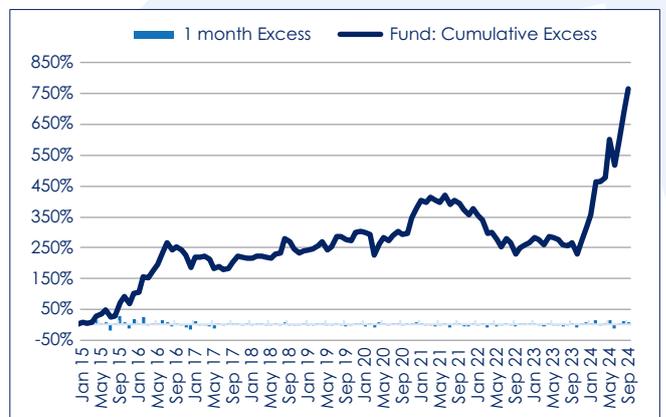
**Rolling Returns**



**Rolling Excess Returns**

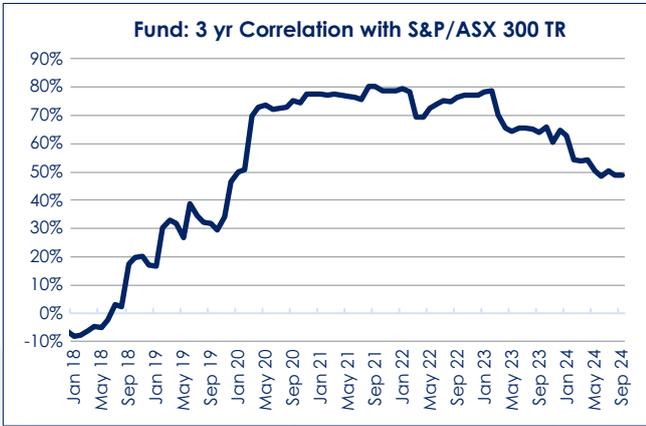


**Cumulative Excess Returns**

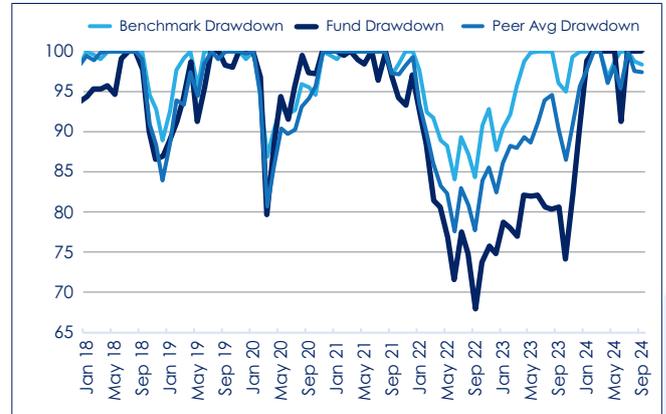


Return and Risk

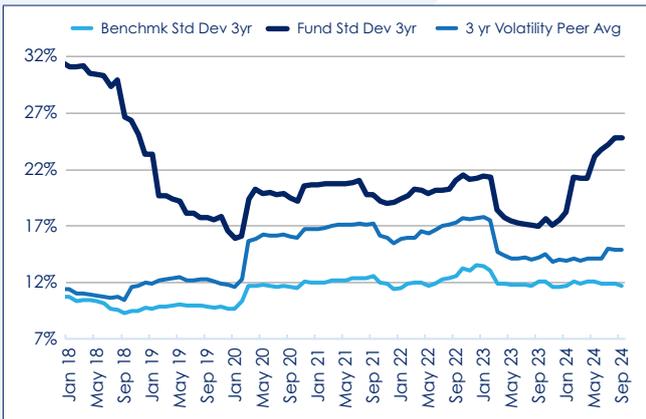
Rolling Correlation



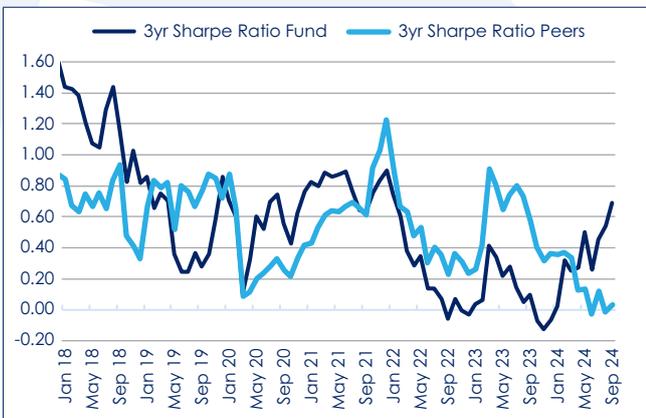
Drawdowns



Rolling Volatility



Rolling Sharpe Ratio



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% 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%

#### Top 5 Holdings\*

Ticker	Holding	Sector	Weight %	Country
IPX-US	Iperionx Ltd. Sponsored ADR	Materials	15.14%	Australia
CU6-AU	Clarity Pharmaceuticals Ltd.	Health Care	14.32%	Australia
GSS-AU	Genetic Signatures Ltd.	Health Care	14.27%	Australia
BRE-AU	Brazilian Rare Earths Ltd.	Materials	13.75%	Australia
IPX-AU	Iperionx Ltd.	Materials	9.26%	Australia

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

**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

$$\text{Alpha} = \text{Fund Return} - \text{Benchmark Return}$$

**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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