A more attractive fund manager

We initiate on Pengana Capital Group ("Pengana") with a $4.67 valuation. Pengana is a high growth house of funds achieving FuM growth of 20.7% CAGR for the past two and a half years, with significant earnings upside from both FuM growth and potential performance fees. It is also currently trading on attractive multiples - at the current share price, we estimate PCG is trading on a FY22E PE ratio of 10.5x, and a dividend yield of 8.3%.

Diversity of offering a strength

Pengana was established as a house of funds – and now offers investments ranging from private equity to small caps, high conviction equities and property, and a variety of ESG funds, to help diversify investors' portfolios. This diversity also supports delivering more consistent performance fees at a group level.

Innovative products target SMSFs and HNW

Some of Pengana's more innovative product offerings are targeted at the SMSF and HMW markets, providing them with access to asset classes such as private equity that they otherwise have difficulty accessing. Pengana's Private Equity LIC PE1 is an example of this – a unique offering providing SMSFs with exposure to private equity investments, with its LIC structure enabling liquidity. For PCG investors, offerings such as PE1 provide the attraction of strong growth in FuM in coming years, which combined with strong performance should be the cornerstone of Pengana's performance fees.

Potential Near – Term Catalysts

- Its ongoing share buyback supporting the stock.
- Increased awareness of various fund offerings from investments in distribution, leading to increases in net flows.
- An improvement in performance which would drive increased performance fees
- Investment of PE1 capital raising proceeds at attractive valuations supporting the generation of further future performance fees
- Potential launch of new funds. We consider possible options for expanding into new asset class offerings.

Valuation

We value Pengana Capital Group at A$4.67 using a DCF on PCG's free cash flow to equity with a cost of equity of 8.0%, referencing peer multiples for reasonableness. Full details are within.

PENGANA CAPITAL

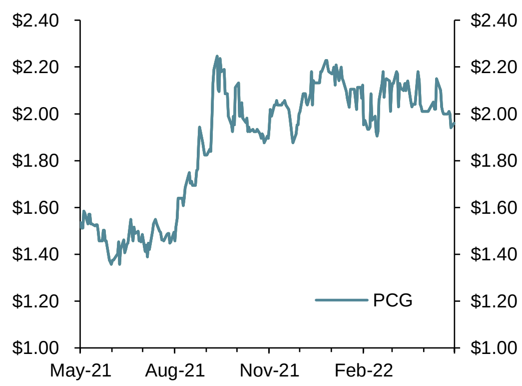
Pengana Capital Group is a fund manager who is a leading Australian provider of premium, value added products focused on the higher-end retail market (advisors and self managed superannuation funds) and high net worth individuals operating for over 18 years with around A$4bn of funds under management.
It has a unique funds management business model using both inhouse teams and joint ventures with offshore groups.
It runs robust, scaleable and technologically advanced "institutional grade infrastructure".

Stock	PCG.AX
Price	A$1.91
Market cap	A$211m
Valuation	A$4.67

Company data	
Net cash	$22m
Shares on issue	109.2m

Next steps	
Monthly FuM updates	Mid-following month
FY22 result	August 2022

PCG Share Price (A$)



Glen Wellham, Senior Research Analyst

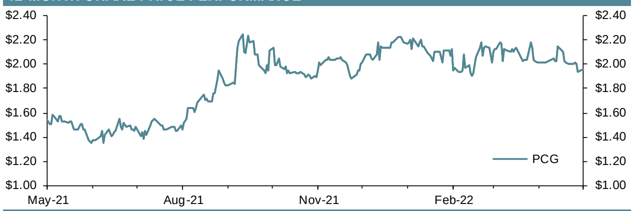
Financials

PENGANA CAPITAL GROUP LIMITED — PCG-AX

Year end 30 June, A$

MARKET DATA		
Price	A$	$1.93
Valuation	A$	$4.67
52 week low - high	A$	1.46 - 2.50
Market capitalisation	A$m	211
Shares on issue (ordinary)	m	109.2
Options / rights (currently antidilutive)	m	0.0
Other equity (treasury shares)	m	-25.5
Shares on issue (basic)	m	83.7

12-MONTH SHARE PRICE PERFORMANCE



INVESTMENT FUNDAMENTALS		FY20A	FY21A	FY22E	FY23E	FY24E
EPS - basic	cps	7.2	10.4	23.7	18.2	21.4
EPS - diluted reported	**cps**	**5.6**	**8.1**	**18.3**	**13.9**	**17.6**
EPS - diluted cash	cps	5.6	8.1	18.3	13.9	17.6
EPS growth	%	-132%	43%	127%	-24%	27%
PE	x	34.3	23.9	10.5	13.9	11.0
DPS	cps	4.0	13.0	16.0	14.0	16.0
Franking	%	100%	100%	100%	100%	100%
Dividend yield	%	2%	7%	8%	7%	8%
Payout rato	%	55%	125%	67%	77%	79%
Operating cash flow per share	cps	6.2	9.6	13.8	17.5	20.9
Free cash flow to equity per share	cps	8.3	10.8	16.6	16.0	19.3
FCF yield	%	4.3%	5.6%	8.6%	8.3%	10.0%
Enterprise value	$m	199	193	193	185	153
EV/Total Revenue	x	4.51	2.82	2.44	2.48	1.79
EV/EBITDA	x	20.14	10.05	6.45	7.74	5.17
NAV per share	A$	1.01	1.05	1.09	1.16	1.38
Price / NAV	x	1.91	1.84	1.77	1.66	1.39
NTA per share	A$	0.21	0.32	0.36	0.44	0.83
Price / NTA	x	9.05	5.97	5.30	4.43	2.32

KEY RATIOS		FY20A	FY21A	FY22E	FY23E	FY24E
FuM	$m	3,246	3,976	3,795	4,298	4,872
Management fees / FuM	%	1.18%	1.14%	1.18%	1.15%	1.16%
Performance fees / FuM	%	0.19%	0.76%	0.85%	0.69%	0.70%
Revenue / FuM	%	1.37%	1.90%	2.03%	1.84%	1.87%
Cost to income ratio	%	78%	72%	62%	68%	65%
ROE - reported	%	7%	10%	22%	16%	16%
ROE - cash	%	7%	10%	22%	16%	16%
Net debt	**A$m**	**-11.6**	**-17.4**	**-18.0**	**-26.2**	**-57.8**
Interest cover	x					
Gearing (net debt / EBITDA)	x	-1.17	-0.90	-0.60	-1.10	-1.95
Leverage (net debt / invested capital)	x	-0.16	-0.25	-0.25	-0.38	-0.63

DUPONT ANALYSIS		FY20A	FY21A	FY22E	FY23E	FY24E
Net Profit Margin	%	14%	13%	25%	20%	22%
Asset Turnover	x	3.55	3.07	2.39	1.88	2.34
Return on Assets	%	49%	39%	60%	38%	52%
Financial Leverage	x	0.15	0.26	0.37	0.43	0.30
Return on Equity	%	7%	10%	22%	16%	16%

HALF YEARLY DATA		2H21A	1H22A	2H22E	1H23E	2H23E
Management fees	A$m	21.5	23.4	22.5	22.8	23.9
Performance fees	A$m	17.1	29.0	4.1	13.4	14.4
Total fee revenue	**A$m**	**38.6**	**52.4**	**26.6**	**36.2**	**38.4**
Net fund direct expenses	A$m	-1.8	-1.6	-1.5	-1.6	-1.7
Operating expenses	A$m	-13.2	-8.8	-10.5	-10.2	-11.0
Team profit share	A$m	-12.6	-19.4	-7.3	-12.6	-13.5
Non-controlling interests	A$m	0.0	0.1	0.0	0.0	0.0
Operating EBITDA	**A$m**	**11.0**	**22.6**	**7.3**	**11.8**	**12.1**
Underlying profit before income tax	A$m	12.0	23.5	8.2	12.7	13.0
Underlying profit after tax	**A$m**	**8.4**	**16.4**	**5.7**	**8.9**	**9.1**
Reported NPAT	A$m	5.6	15.5	4.3	7.4	7.6
Cash NPAT	A$m	5.6	15.5	4.3	7.4	7.6
EPS - diluted cash	**cps**	5.1	17.2	3.9	6.9	7.1
EPS - diluted reported	cps	5.1	17.2	3.9	6.9	7.1
DPS	cps	8.0	12.0	4.0	7.0	7.0

PROFIT AND LOSS		FY20A	FY21A	FY22E	FY23E	FY24E
Management fees	A$m	38.1	41.2	45.9	46.7	53.4
Performance fees	A$m	6.1	27.5	33.1	27.9	32.3
Total fee revenue	**A$m**	**44.2**	**68.6**	**79.0**	**74.6**	**85.7**
Net fund direct expenses	A$m	-3.1	-3.2	-3.1	-3.3	-3.8
Operating expenses	A$m	-18.2	-21.8	-19.3	-21.3	-22.3
Team profit share	A$m	-13.2	-24.4	-26.7	-26.1	-30.0
Non-controlling interests	A$m	0.2	-0.1	0.1	0.0	0.0
Operating EBITDA	**A$m**	**9.9**	**19.2**	**29.9**	**23.9**	**29.6**
Underlying profit before income tax	A$m	12.5	21.2	31.6	25.6	31.0
Underlying profit after tax	**A$m**	**8.9**	**14.8**	**22.2**	**17.9**	**21.7**
Reported NPAT	A$m	6.1	8.7	19.8	15.0	19.0
Cash NPAT	A$m	6.1	8.7	19.8	15.0	19.0
Weighted average diluted shares	m	107.9	108.0	108.0	108.0	108.0

BALANCE SHEET		FY20A	FY21A	FY22E	FY23E	FY24E
Cash and cash equivalents	A$m	15.3	19.9	19.8	28.0	59.7
Receivables	A$m	0.5	0.7	2.1	2.4	2.7
Property, plant and equipment	A$m	0.3	0.2	0.2	0.2	0.3
Goodwill and other intangibles	A$m	66.7	61.0	59.7	59.7	59.7
Other assets	A$m	23.3	42.7	47.5	53.8	60.9
Total Assets	**A$m**	106.1	124.5	129.4	144.2	183.3
Trade and other liabilities	A$m	11.3	23.5	26.2	34.9	20.2
Borrowings	A$m	1.3	1.3	1.3	1.3	1.3
Other liabilities	A$m	9.1	11.7	12.2	12.3	12.4
Total Liabilities	**A$m**	21.6	36.4	39.7	48.5	33.8
Net assets	**A$m**	**84.5**	**88.1**	**89.8**	**95.7**	**149.5**
Net tangible assets	**A$m**	**17.8**	**27.1**	**30.0**	**36.0**	**89.8**
Invested capital	**A$m**	**72.9**	**70.7**	**71.8**	**69.5**	**91.7**
Tangible invested capital	**A$m**	**6.3**	**9.7**	**12.1**	**9.8**	**32.0**
Contributed equity	A$m	99.4	99.8	97.2	97.2	121.2
Reserves	A$m	32.8	34.9	73.0	73.0	73.0
Accumulated losses	A$m	-47.6	-46.5	-80.2	-74.3	-44.5
Non-controlling interests	A$m	-0.2	-0.1	-0.2	-0.2	-0.2
Total equity	**A$m**	**84.5**	**88.1**	**89.8**	**95.7**	**149.5**
Basic shares on issue	m	83.5	83.8	82.5	82.5	108.0

CASH FLOW		FY20A	FY21A	FY22E	FY23E	FY24E
Operating						
Net operating cashflow	**A$m**	**6.7**	**10.4**	**14.9**	**18.9**	**22.5**
Investment						
Capital expenditure	A$m	-0.1	-0.1	-0.7	-1.4	-1.4
Acquisitions and divestments	A$m	4.3	3.0	4.0	0.0	0.0
Net investment cashflow	**A$m**	**4.2**	**2.9**	**3.2**	**-1.4**	**-1.4**
Financing						
Equity	A$m	-7.8	-7.2	-18.0	-9.1	10.8
Debt	A$m	-1.3	-1.3	0.0	0.0	0.0
Leases	A$m	-0.7	-0.3	-0.3	-0.3	-0.3
Net financing cashflow	**A$m**	**-9.7**	**-8.7**	**-18.2**	**-9.3**	**10.5**
Net cash flow	**A$m**	**1.2**	**4.6**	**0.0**	**8.2**	**31.7**
Free cash flow to equity	A$m	8.9	11.7	17.9	17.3	20.9

Source: PCG reports, MST Access estimates

Investment Thesis

Pengana Capital Group ("Pengana") is a high growth "house of funds" style fund manager. It offers a diversified range of investment products both directly and in partnerships with leading global investment managers. This enables Pengana to provide investors with access to a wide range of attractive investment products which in many cases they would not otherwise be able to access.

Pengana shares in the economics from these offerings with the underlying investment teams. This ensures a strong incentives and alignment between investment teams and Pengana. The structure also enables Pengana to continue to expand its product offerings at a faster pace than rivals who look to keep all investment management operations in house.

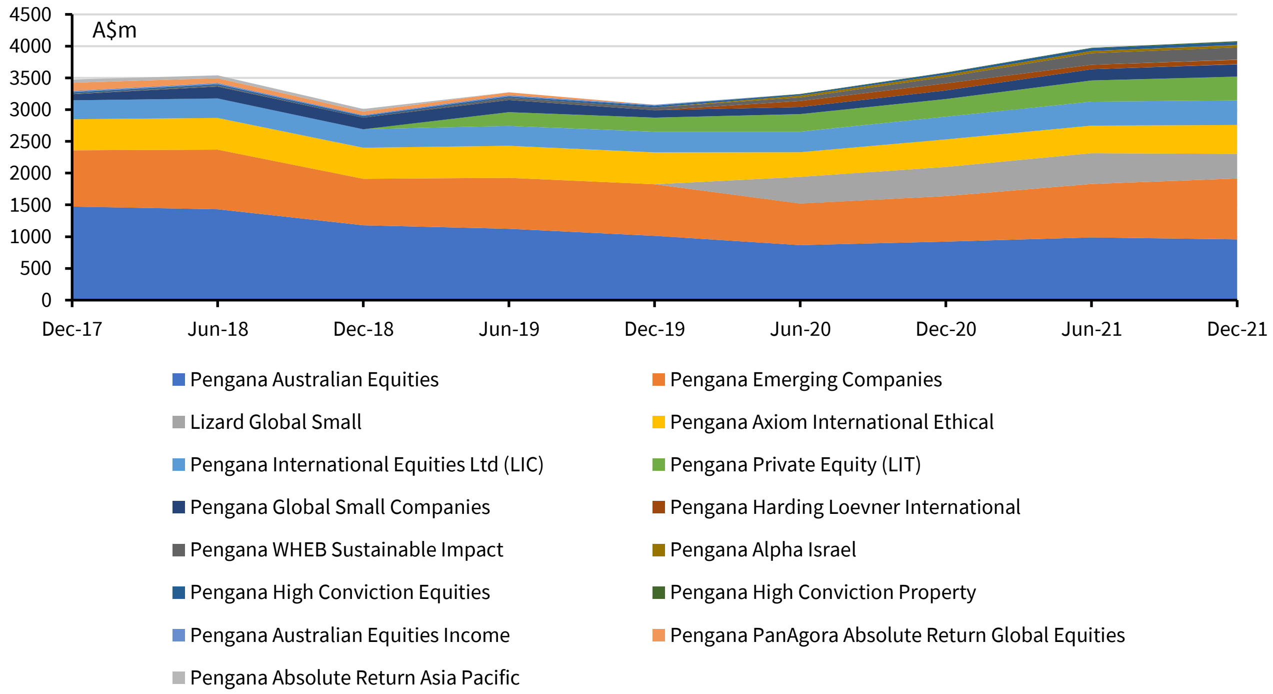
This structure enables Pengana to achieve growth from multiple sources, resulting in a very high growth rate:

- Performance of existing funds, including 100% of performance fees from PIA and PE1, and sharing performance fees with its fund managers in most other funds.
- Flows from existing clients into existing funds, with retail FuM typically sticker than wholesale FuM
- Flows from new clients into existing funds, aided by investments into distribution including fund ratings and better penetration of financial planners
- Creation of new funds and flows into them from existing clients (i.e. cross -sell)
- Improving operating leverage on the existing cost base

Complimenting this high growth are the modest valuation metrics on which the stock trades. Given its substantial performance fees and the diversity of funds capable of earning performance fees we expect a portion are reoccurring, combined with its high growth, the stock trades on very modest forward multiples, while it also looks attractive using various intrinsic valuation methods including discounted free cashflows to equity, a dividend discount model and a generalised residual income model.

Company Description

Figure 1 –Pengana Capital Group recent history of funds under management by fund



Source: Company reports, MST Access

Pengana Capital Group is a fund manager who is a leading Australian provider of premium, value added products focused on the higher-end retail market (advisors and self managed superannuation funds) and high net worth individuals operating for over 18 years with around A$4bn of funds under management.

It has a unique funds management business model using both inhouse teams and joint ventures with offshore groups.

It runs robust, scaleable and technologically advanced "institutional grade infrastructure".

Recent Events

- 13 April 2022: March 2022 FuM update
- 11 March 2022: February 2022 FuM update
- 25 February 2022: 1H22 result
- 11 February 2022: January 2022 FuM update
- 27 October 2021: 2021 AGM
- 31 August 2021: FY21 result, annual report and result presentation

Potential Near-Term Catalysts

- Monthly FuM updates around 10-15 days into the following month.
- Outperformance of benchmarks, given many funds are close to their high watermarks, leading to increased performance fee income.
- Increased net inflows into funds following Pengana's investment in strengthening its distribution, including its recent additional capital raising in PE1, lifting management fee income.
- Any potential launch of new funds. We discuss potential styles on page 13.

Valuation summary

We value Pengana Capital Group at A$4.67 using a DCF on PCG's free cash flow to equity. We use a two-stage model, using our explicit forecasts over the next five years, followed by a terminal value, to which we add current net assets per share. We estimate PCG's equity beta to be 1.0. While we assume a risk-free rate of 2.0% and equity risk premium of 6.0%, given our assumed beta of one these are somewhat fungible and is also equivalent to using a risk free rate of 3.0% and an equity risk premium of 5.0% - something investors may be more comfortable with give the recent rise in risk free rates. This leads to us estimating PCG's cost of equity to be 8.0% and terminal growth of 3.0%. This produces a valuation of A$4.67.

Later in this report we also detail our dividend discount model and general residual income model for Pengana.

Figure 2 – MST Access valuation of Pengana Capital Group

Current date		10-May-22								
Next balance date		30-Jun-22								
		Jun-22	Dec-22	Jun-23	Dec-23	Jun-24	Dec-24	Jun-25	Dec-25	Jun-26
Free cash flow to equity	**A$m**	**6.0**	**8.5**	**8.8**	**10.4**	**10.5**	**11.5**	**12.1**	**13.6**	**14.4**
Discounted cash flow	**A$m**	**5.9**	**8.0**	**8.1**	**9.1**	**8.9**	**9.4**	**9.5**	**10.3**	**10.5**

Sum of discount streams	A$m	79.7	**CAPM**	
Future value into perpetuity	A$m	560.9	Risk free rate	2.00%
NPV of terminal value	A$m	407.9	Equity beta	1.00
add adjusted net cash and associates	A$m	22.0	Equity risk premium	6.00%
Value of total equity	**A$m**	**509.6**	Cost of equity	8.0%
Diluted shares on issue	#	109.2		
Value per share	**A$**	**4.67**	Terminal growth	3.0%
Upside/downside	%	140%		

Source: Company reports, MST Access

Key comparatives in Australia include other fund managers providing a diversity of funds across asset classes to investors, such as Perpetual, Platinum, Magellan, GQG, Pendal and Janus Henderson. We also provide international peer comparative valuation multiples later in this report.

Figure 3 –Australian peer comparative valuation multiples for Pengana Capital Group

Identifier (RIC)	Company Name	AuM (US$bn)	Forward P/E	Trailing P/CF	Forward P/CF	P/B	Trailing EV/EBITDA	Forward EV/EBITDA	Trailing EV/Revenue	Forward EV/Revenue
PCG.AX	Pengana Capital Group Ltd	3.0	10.5	17.8	11.6	1.7	10.1	6.5	2.8	2.4
AEF.AX	Australian Ethical Investment Ltd			77.1		39.2	56.5		18.9	
FID.AX	Fiducian Group Ltd	7.8		13.3		4.9	9.6		4.6	
GQG.AX	GQG Partners Inc		11.4	12.4	9.5	13.0	11.5	8.5	9.6	6.0
IFL.AX	Insignia Financial Ltd		9.0			1.1	9.9	6.2	3.4	1.6
JHG	Janus Henderson Group PLC	432.3	9.3	10.8	6.7	1.5	5.9	5.1	2.1	1.5
MAM.AX	Microequities Asset Management Group Ltd			6.4		4.6	4.1		3.5	
MFG.AX	Magellan Financial Group Ltd		6.8	35.7	7.3	10.0	15.7	5.0	13.9	4.0
PAC.AX	Pacific Current Group Ltd		12.2	13.9	14.7	0.7	12.0		6.3	
PDL.AX	Pendal Group Ltd	100.6	10.0	14.6	9.3	2.1	12.3	6.5	4.8	2.5
PNI.AX	Pinnacle Investment Management Group Ltd	67.0	20.5	31.6	23.3	8.8	589.1	19.0	68.6	37.6
PPT.AX	Perpetual Ltd		12.1	18.6	14.0	2.5	13.5	7.2	3.4	2.3
PTM.AX	Platinum Asset Management Ltd	17.6	8.7	17.2	8.4	8.3	13.9	4.9	9.9	3.3
	Australian average		**11.1**	**22.9**	**11.7**	**8.1**	**62.8**	**7.8**	**12.4**	**7.4**
	Australian median		**10.0**	**14.6**	**9.4**	**4.7**	**12.2**	**6.3**	**5.5**	**2.9**

Note: we include Janus Henderson in the Australian grouping given its ASX CDI listing, thus making it easily accessible to domestic investors.

Source: IBES consensus, Refinitiv, MST Access estimates for PCG

Risks and Sensitivities

We elaborate on Pengana Capital Group's risks and sensitivities later in this report. In summary, they can be categorised under strategic, financial and operational risks summarised as:

Strategic

Pengana Capital Group operates in a dynamic and changing market, which sees competitors providing new and innovative offerings in a bid to capture market share.

Changing economic conditions will influence fund performance, which influences how marketable funds are and their ability to attract net inflows and lift funds under management.

Furthermore, there is a significant number of regulatory requirements, and could suffer from adverse changes to the requirements, including in Australia:

- Anti-money laundering and counter terrorist financing requirements administered by Austrac as well as Magnitsky-style targeted sanctions administered by the Department of Foreign Affairs and Trade;
- Privacy requirements administered by the Privacy Commissioner;
- Financial Service licencing and Credit licencing administered by the Australian Securities and Investments Commission (ASIC);
- Australian Consumer Law and unfair contract terms contained in the Corporations Act administered by the Australian Competition and Consumer Commission (ACCC);
- Taxation legislation administered by the Australian Taxation Office (ATO);
- Accounting standards required under the Corporations Act administered by the Australian Accounting Standards Board (AASB) and ASIC;
- Design and distribution obligations, several of which will be governed by contract law.

Financial

Being a finance company, Pengana Capital Group has a range of risks and sensitivities applicable to most companies in the financial sector. These include:

- Macroeconomic conditions
- Liquidity and funding risks

- Credit risk
- Fraud
- Compliance risks

Operational

Most companies, including Pengana Capital Group, have a range of operational risks. These include:

- Governance
- Key personnel
- Information technology
- Cybersecurity and data protection
- Force majeure events
- Litigation, claims and disputes

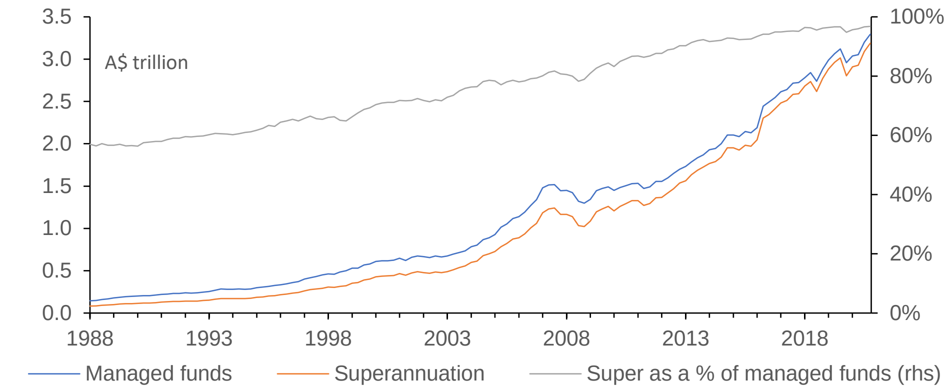
Contents

Competitive landscape

Pengana is focused on the higher-end retail market (advisors and self-managed superannuation funds) and high net worth individuals. Each of these focus segments are individually large markets which should underpin Pengana's continued rapid growth for many years as it increases its presence in each of these markets.

Structure of the Australian funds management market

Figure 4 – Australian superannuation and managed fund assets



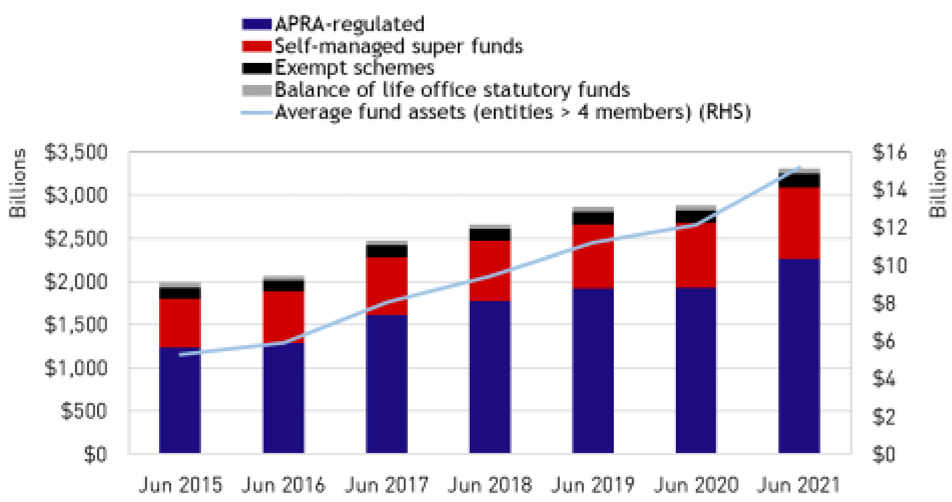
Source: ABS Managed Funds, Australia, MST Access

The Australian Bureau of Statistics suggests that total managed funds in Australia are now $4.5tr (as at December 2021), although on a consolidated basis this falls to $3.6tr.

Superannuation now makes up 97% of the Australian funds management industry, and will increase further as contributions rise.

The Australian superannuation sector currently has assets in excess of A$3tr, which is now greater than the size of the Australian economy or the market capitalization of all the companies listed on the ASX.

Figure 5 – Assets of superannuation entities



Source: APRA Superannuation statistics, MST Access

Its strong growth is set to continue, accelerated by increasing compulsory contribution rates over the next several years, lifting contributions from 10% to 12% of workers' wages.

The Rice Warner Superannuation Market Projections Report 2020 suggests that superannuation assets may increase to $6.6 trillion over the next 15 years.

The need for additional assets to invest in, at reasonable rather than inflated prices, is leading to:

- Increased international investment
- Increased investments in unlisted assets
- Funding the development of new property and infrastructure assets

Self-managed super funds now represent over $800bn of this >$3tr in superannuation and have been the fastest growing segment of the superannuation market, as people with larger funds in other market segments migrate their superannuation into self-managed superannuation funds.

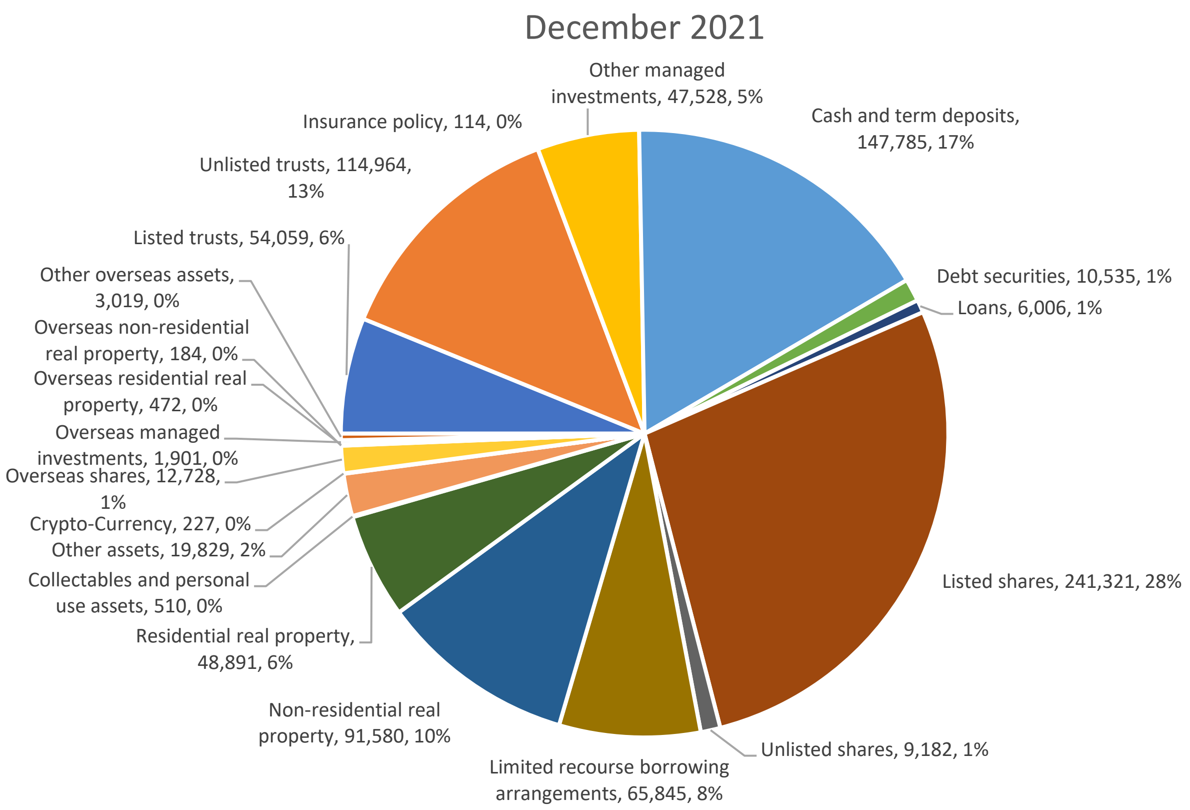
There is still a sizeable discretionary managed funds market of A$495bn in funds under management (counting cross-invested assets), run though both investment platforms and the ASX's mFund service, which compete with direct investments in underlying assets such as shares, hybrids, corporate bonds, and property. Pengana is also one of the few providers of direct managed funds, where investors can invest directly with the fund manager, rather than through an investment platform.

The High Net Wealth market in Australia effectively exists across SMSFs and discretionary funds.

Pengana offering listed vehicles for unlisted investments has great appeal

SMSF's asset allocations have long been dominated by domestically listed shares and cash and term deposits – easily accessible asset classes - and have a growing proportion of investments dedicated to property – again easily accessible – while being underweight in overseas assets and other unlisted asset classes such as private equity and venture capital, as well as infrastructure and corporate debt.

Figure 6 – Australian self-managed superannuation funds asset allocation (A$m)



Source: ATO SMSF statistics, MST Access

Industry superannuation funds have historically had higher levels of non-listed investments, which may have supported generating higher rates of return for their investors; while retail superannuation funds have traditionally focused on listed assets due to their greater liquidity. Both SMSFs and retail funds would likely benefit from ways to bridge the liquidity gap for unlisted assets, that have enabled industry funds to gain greater diversification and more consistent returns.

The Pengana Private Equity LIT (ASX: PE1) is an innovative example of how this liquidity gap can be bridged, and as a result is attractive to not just SMSFs but also to retail superannuation funds who typically do not have access to this asset class due to liquidity requirements.

As we discuss later, we believe that significant opportunity exists for a similar LIT or LIC structure to be adopted to provide access to other unlisted asset class categories.

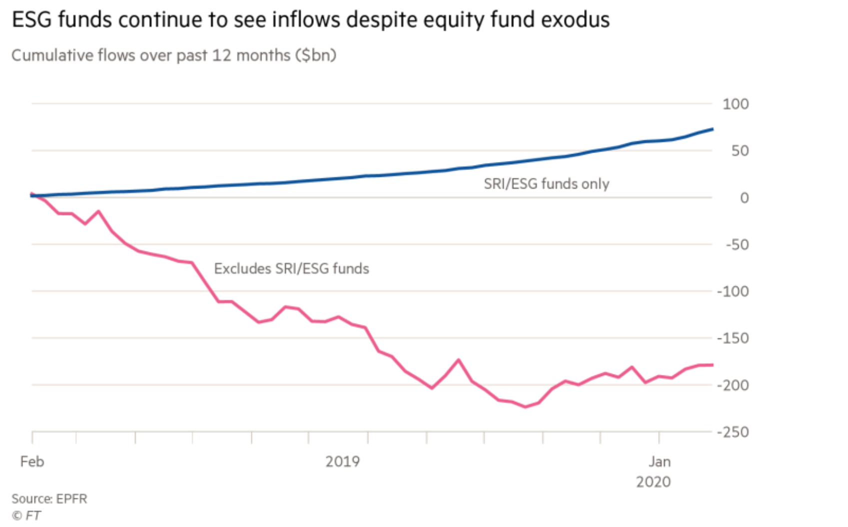
Growing popularity of ESG funds globally

Within active funds management, there has been strong growth in ESG (Environmental, Social, and Governance) mandates both globally and in Australia.

Several different data and research organisations keep track of the growth of ESG funds:

- Calastone reports that ESG funds were major beneficiaries of Australians' cash in 2021, with net new capital invested in ESG equity funds more than quadrupled year-on-year (+338%) to A$3.0bn.
- Morningstar suggests that Australia and New Zealand recorded net flows of US$2.3bn into global sustainable funds in just 4Q21, with assets invested in these funds now topping US$30.6bn, across 152 funds.
- EPFR Global is another company which tracks fund flows and allocations. The Financial Times highlighted the impressive trend of investments into ESG funds compared to other actively managed funds reproduced in Figure 7.

Figure 7 – Actively managed ESG fund flows relative to non-ESG funds



Source: Financial Times

Morningstar in its quarterly Global Sustainable Fund Flows report highlighted the growth of ESG funds, and also highlighted not just new product launches, but also the rebranding of existing funds, to join the sustainable fund universe. In our observation, while several major fund managers offer ESG funds, dedicated ESG investors appear to be having greater success in attracting these ESG focused flows.

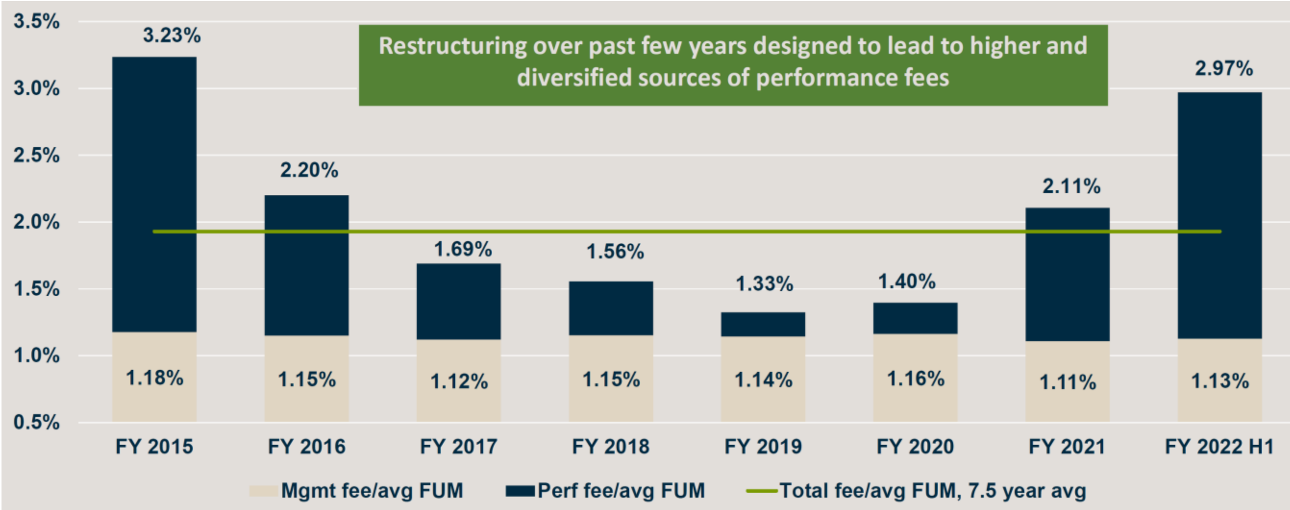
Pengana's partnerships with WHEB for its Sustainable Impact fund, and with Axiom International for its Ethical fund enables Pengana to attract investors who wish to invest in this global trend.

It is also worth noting that while Australia lags some European nations in the proportion of equity funds invested in ESG funds, it is a world leader in the proportion of fixed interest investments invested in ESG funds.

Pengana Capital Group's advantages

The diverse range of fund strategies provides reduced correlation between performance fees on each of the funds, thus delivering a diversified and growing stream of performance fees. As such, applying the central limit theorem would suggest that Pengana is likely to be able to deliver a sustainable level of performance fees – and the confidence of delivering a sustainable level of performance fees should grow as the number of different funds with performance fees grows.

Figure 8 – Pengana's performance fees



Source: Company reports, MST Access

Minimal risk of further capital raising at the parent company level

While Pengana will continue to seek to attract flows into its funds, these operate independently of the parent company.

We do not believe that the Pengana Capital Group needs to raise additional capital. It is currently well capitalised, cash generative, and dividend paying, with a substantial net cash balance on its balance sheet as well as sizeable investments in some of its funds, which it has the potential to re-deploy to seed additional funds. Furthermore, as we discuss later, management have a significant stake in the business which acts as a strong incentive against dilutionary raisings.

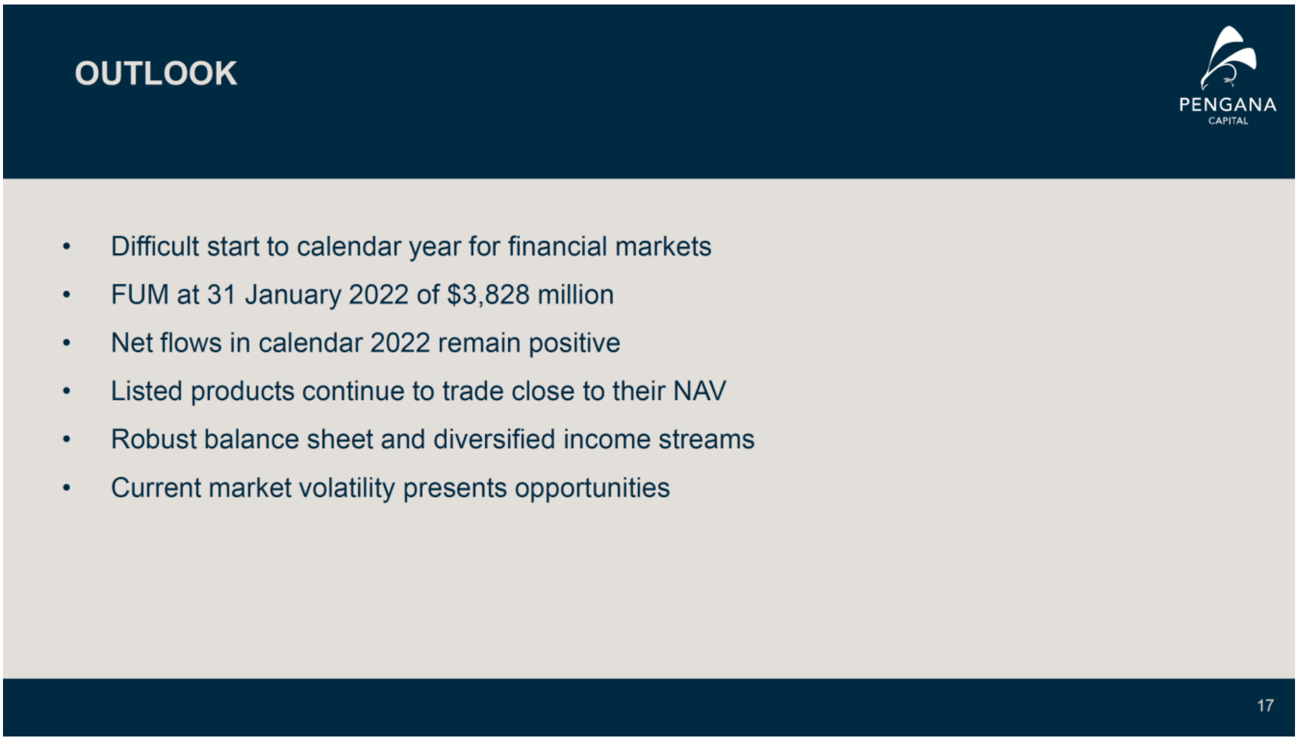
Our experience with other fund managers is that they are extremely cash generative, and tend to only need to raise funds through secondary offerings if they seek to acquire another fund manager, apart from the rare cases where they mis-manage themselves. Mis-management tends to occur when a fund manager combines sizeable financial leverage to its existing operational leverage, and then seeing its operational leverage decline either from sizeable outflows or adverse markets.

We could see Pengana conduct additional M&A to expand its funds management platform; however we believe that the board is likely to be quite strategic in this approach, and would likely favour relatively small "bolt on" acquisitions, which it could fund internally, rather than large strategic mergers.

Outlook

Outlook commentary

Figure 9 – Pengana 1H22 outlook statement



Source: Company reports, MST Access

Pengana's momentum continues to impress. While FuM has fallen predominantly due to the retrace in markets during early calendar 2022, with FuM falling in both January and February, Pengana still continues to attract net new funds flows. Furthermore, the rights issue conducted during 2H22 by PE1 lifting PE1's AuM, should help offset some of the impact of market falls in its equity funds, and the volatility should assist with delivering strong investment performance.

Long term growth strategy

Pengana has many key attractions which underpin the company's long term growth strategy. Like most fund managers, Pengana's profitability is highly leveraged to FuM growth, which has the potential to be significant given it currently has infrastructure capable of managing much larger FuM with minimal additional expenses.

It has compelling long-term returns across the range of strategies, with significant outperformance since inception for most of its funds, as detailed in Figure 10. Pengana's asset mix and historic performance also enables it to charge good fee margins and enjoy diversified sources of performance fees across 75% of FuM; which enable it to achieve an attractive level of revenues to FuM.

Its funds are diversified across:

- Strategies / funds
- Geographies
- Market caps
- Listed and private equity
- Listed and open-ended funds, with 18% of FuM in listed vehicles

Figure 10 – Pengana funds' performance track record

COMPELLING TRACK RECORDS WITH CAPACITY TO GROW (AS AT 31/12/2021)

PENGANA CAPITAL

Primary Fund/Vehicle Name	Strategy	Team	FUM Current ($m)	Indicative Further FUM Capacity ($bn)	Performance Since Inception p.a. [13]		
					Fund %	Benchmark %	Relative %
Pengana Australian Equities[1]	Australian Multi Caps	Internal	958	Limited	10.0	7.2	2.8
Pengana Emerging Companies[2]	Australian Small Caps	Internal	956	Limited	14.2	6.0	8.2
Pengana Axiom International Ethical [3]	Global, Multi Caps, Ethical	JV	452	Very large	9.4	8.2	1.2
Lizard Global Small [4]	Global, Small Caps	Internal	390	~2bn	9.2	8.5	0.7
Pengana International Equities Ltd (LIC) [5]	Global, Multi Caps, Ethical	JV	389	Very large	9.4	8.8	0.6
Pengana Private Equity (LIT) [6]	Global, Multi Caps	JV	374	Very large	13.3	-	-
Pengana WHEB Sustainable Impact [7]	Global, Multi Caps, Impact	JV	287	~$800m	7.4	7.7	(0.3)
Pengana Global Small Companies[8]	Global, Small Caps	Internal	195	~$500m	9.8	10.5	(0.7)
Pengana Harding Loevner International [9]	Global, Multi Caps, ESG	JV	71	Very large	10.1	7.4	2.7
Pengana High Conviction Equities[10]	Global, Multi Caps	Internal	48	~$200m	29.6	13.6	16.0
Pengana Alpha Israel[11]	Israel, Small-Mid Caps	JV	37	~$500m	9.3	9.6	(0.3)
Pengana High Conviction Property [12]	Australian, Multi Caps, ESG	Internal	13	~$700m	23.8	10.6	13.2

1. Benchmark: ASX All Ordinaries Accumulation Index, Inception Jul-08 2. Benchmark: ASX Small Ordinaries Accumulation Index, Inception Nov-04 3. Benchmark: MSCI AC World Total Return Index (Net), Strategy Inception Jun-04 4. Lizard International Master Fund LP, Benchmark: MSCI ACWI SMID Cap, Inception Dec-08 5. Benchmark: MSCI World Total Return Index (Net), Inception Mar-04 6. Inception Apr-19 7. Benchmark: MSCI World Total Return Index (Net), Strategy Inception Jan-06 8. Benchmark: MSCI AC World SMID Cap Index (Unhedged)2, Inception Apr-15 9. Benchmark: MSCI AC World Total Return Index (Net), Strategy Inception Nov-89 10. Benchmark: MSCI World Total Return Index (Net)2, Inception Dec-14 11. Benchmark: Tel Aviv Stock Exchange 125 Index, Inception Dec-17 12. Benchmark: S&P/ASX 200 A-REIT TR Index2, Inception Feb-20 13. Performance Since Inception to 31 December 2021

Source: Company reports, MST Access

Pengana has the capacity to grow in existing strategies as well as optionality to add new strategies with multiple growth prospects in "high demand" segments/themes. With infrastructure capable of managing much larger FuM with minimal additional expenses, Pengana has the potential to be a much larger house of funds. While several of its fund are approaching capacity, there is significant potential to add additional funds in partnership with many overseas fund managers who do not have distribution in Australia. Examples of potential new funds we think Pengana could add over time include:

- Pengana does not currently have any fixed interest or debt offerings, which appear to offer a sizeable market to expand into. Keeping its alternatives focus, it could potentially start with partnering with a distressed debt fund for a listed investment company or trust, rather than a more vanilla debt fund. Alternatively, it may wish to consider acquiring one of the small listed fixed interest managers trading on the ASX.
- Treating crypto assets as either a commodity or currency, Pengana could create a crypto fund providing exposure to this new field of assets.
- With listed equities, partnering with additional country or region-specific funds might be of interest to investors– be it focused on Japan, China, Europe, South America or Africa.
- With unlisted equities, Pengana could look at adding a separate Venture Capital fund to complement its existing Private Equity offering.
- Infrastructure remains a hot investment area, which has seen a significant delisting of listed infrastructure assets. Pengana could consider a listed investment company to hold such assets; akin to what Macquarie has previously done in the space.

The strong performance of Pengana's funds had enabled it to become a recognised brand with loyal client base of financial advisors, retail and HNW. These client bases are serviced by experienced and capable distribution team, which continues to increase Pengana's distribution across the Australian market, leveraging its sophisticated digital marketing capabilities.

Key valuation considerations

Key modelling assumptions

Our key assumptions underlying the growth in PCG's income over the next few years are listed below. We believe that, on balance these assumptions are on the conservative side of potential growth outcomes.

Figure 11 – Pengana Capital Group Key Modelling Assumptions

Funds under Management	From 1H23, with the exception of PE1, Australian Equities, Emerging Companies and High Conviction funds, we expect the remaining funds to grow at 5% per half expected and 8% per half, with PE1 expected to grow at 10% per half, Emerging Companies at 8% per half and 6% per half for Australian Equities and the high conviction funds. We have lowered these assumptions in 2H22 for market falls.
Benchmarks	We expect that funds' benchmarks will also grow at the rate of Funds under Management , with the exception of the Emerging Companies fund which we believe can sustainably generate 2% incremental performance over benchmark, and PE1, which does not have a benchmark.
Management fees	Are assumed to remain constant, thus fee revenue changes only with AuM growth.
Performance fees	Are assumed to be driven by performance. Thus with performance assumed to be benchmark for all but PE1 and Emerging Companies, we are only forecasting performance fees for these two funds plus the Alpha Israel fund which has a fixed return benchmark of 4%
Team profit share	Is based upon a proportion of our performance fee forecasts. These profit shares vary by fund, with a higher team profit share for internally managed funds. There is no team profit share for the listed funds PE1 and PIA.
Net fund direct expenses	Are assumed to grow in line with AuM.
Operating expenses	Are assumed to grow at 5% per annum from FY23. They fall modestly in FY22 due to some one off expenses in FY21.
Financing costs	Are assumed to remain relatively non-material given the small loan Pengana retains for future financial flexibility. These interest costs do not include the interest revenue associated with the loan share plan.
Tax	Is assumed to be at the Australian tax rate of 30%
Capex	Continued modest and stable levels of capex in property, plant, equipment and software is assumed going forward
Dividends	With Pengana paying out "the majority" of its profits, we have assumed that it pays out around 70%-90% of its earnings, which given our steady AuM growth leads to a steady increase in the company's dividend.
Treasury shares	The 25.5m treasury shares associated with the loan share plan are assumed to be released upon cessation of this plan in 2024, with the loans repaid. We treat this loan repayment as a contribution to equity, given this loan is not consolidated into the group's accounts, rather treated as an off-balance sheet item.

Source: Company reports, MST Access

Income statement

Figure 12 – Pengana Capital Group income statements and forecasts

Date		Jun-20	Jun-21	Jun-22	Jun-23	Jun-24	Jun-25	Jun-26
Period		FY20A	FY21A	FY22E	FY23E	FY24E	FY25E	FY26E
Revenue								
Management fees	A$m	38.1	41.2	45.9	46.7	53.4	60.8	69.4
Performance fees	A$m	6.1	27.5	33.1	27.9	32.3	37.4	43.4
Total fee revenue	**A$m**	**44.2**	**68.6**	**79.0**	**74.6**	**85.7**	**98.2**	**112.8**
Net fund direct expenses	A$m	-3.1	-3.2	-3.1	-3.3	-3.8	-4.3	-4.8
Operating expenses	A$m	-18.2	-21.8	-19.3	-21.3	-22.3	-23.5	-24.6
Team profit share	A$m	-13.2	-24.4	-26.7	-26.1	-30.0	-35.5	-41.8
Non-controlling interests	A$m	0.2	-0.1	0.1	0.0	0.0	0.0	0.0
Operating EBITDA	**A$m**	**9.9**	**19.2**	**29.9**	**23.9**	**29.6**	**35.0**	**41.5**
Interest and investment income distributions	A$m	0.8	0.6	0.4	0.4	0.4	0.4	0.4
Interest on loan funded share plan	A$m	2.0	1.5	1.4	1.4	1.1	0.0	0.0
Financing costs	A$m	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1
Net interest	**A$m**	**2.6**	**1.9**	**1.8**	**1.8**	**1.4**	**0.3**	**0.3**
Underlying profit before income tax	**A$m**	**12.5**	**21.2**	**31.6**	**25.6**	**31.0**	**35.3**	**41.8**
Underlying income tax expense	A$m	-3.5	-6.4	-9.5	-7.7	-9.3	-10.6	-12.6
Underlying profit after tax	**A$m**	**8.9**	**14.8**	**22.2**	**17.9**	**21.7**	**24.7**	**29.3**
Gain / loss on investments	A$m			1.6	0.0	0.0	0.0	0.0
Adjustments for non-recurring items	A$m	-0.5	0.7	0.1	0.0	0.0	0.0	0.0
Comprehensive income before income tax	**A$m**	**11.9**	**21.9**	**33.3**	**25.6**	**31.0**	**35.3**	**41.8**
Depreciation	A$m	-3.5	-4.8	-2.7	-2.7	-2.7	-2.7	-2.7
Amortisation	A$m	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Impairment	A$m	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Depreciation, amortisation and impairment	**A$m**	**-3.5**	**-4.8**	**-2.7**	**-2.7**	**-2.7**	**-2.7**	**-2.7**
EBIT	**A$m**	**6.4**	**14.5**	**27.2**	**21.1**	**26.9**	**32.3**	**38.8**
Interest and investment income distributions	A$m	0.8	0.6	0.4	0.4	0.4	0.4	0.4
Financing costs	A$m	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1
Net interest (note excludes Loan Share Plan)	**A$m**	**0.6**	**0.5**	**0.3**	**0.3**	**0.3**	**0.3**	**0.3**
Total investment gains	A$m	0.0	0.0	1.6	0.0	0.0	0.0	0.0
Investment gains in comprehensive income reserve	A$m	0.0	-2.1	-1.3	0.0	0.0	0.0	0.0
Investment gains in P&L	**A$m**	**0.0**	**-2.1**	**0.3**	**0.0**	**0.0**	**0.0**	**0.0**
Other adjustments	A$m	-0.6	0.8	0.0	0.0	0.0	0.0	0.0
Profit Before Tax	**A$m**	**6.3**	**13.6**	**27.8**	**21.5**	**27.2**	**32.6**	**39.1**
Income tax expense	A$m	-0.4	-4.8	-8.1	-6.4	-8.2	-9.8	-11.7
Non-controlling interests	A$m	0.2	-0.1	0.1	0.0	0.0	0.0	0.0
Net Profit After Tax	**A$m**	**6.1**	**8.7**	**19.8**	**15.0**	**19.0**	**22.8**	**27.4**
add backs for cash profit								
Amortisation and impairment	A$m	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net corporate expenses after tax	A$m	-0.5	0.7	0.0	0.0	0.0	0.0	0.0
Cash NPAT	**A$m**	**6.1**	**8.7**	**19.8**	**15.0**	**19.0**	**22.8**	**27.4**
Closing basic shares on issue	m	83.5	83.8	82.5	82.5	108.0	108.0	108.0
Weighted average basic shares on issue	m	84.0	83.7	83.4	82.5	88.9	108.0	108.0
Weighted average diluted shares on issue	m	107.9	108.0	108.0	108.0	108.0	108.0	108.0
Diluted EPS	**A$**	**0.0563**	**0.0807**	**0.1830**	**0.1391**	**0.1762**	**0.2113**	**0.2535**
Total Dividends	**cps**	**4.00**	**13.00**	**16.00**	**14.00**	**16.00**	**17.00**	**20.00**
Franking	%	100%	100%	100%	100%	100%	100%	100%

Source: Company reports, MST Access

Balance sheet

Figure 13 – Pengana Capital Group balance sheet and forecasts

Date		Jun-20	Jun-21	Jun-22	Jun-23	Jun-24	Jun-25	Jun-26
Period		FY20A	FY21A	FY22E	FY23E	FY24E	FY25E	FY26E
Assets								
Current Assets								
Cash and cash equivalents	A$m	15.3	19.9	19.8	28.0	59.7	67.1	74.6
Trade and other receivables	A$m	0.5	0.7	2.1	2.4	2.7	3.1	3.5
Contract assets	A$m	3.8	21.5	31.0	35.2	39.9	45.2	51.4
Income tax refund due	A$m	0.6	0.0	0.0	0.0	0.0	0.0	0.0
Prepayments	A$m	0.7	1.0	1.4	1.6	1.9	2.1	2.4
Security deposits	A$m	0.6	0.0	0.0	0.0	0.0	0.0	0.0
Assets held for sale	A$m	0.0	1.7	0.0	0.0	0.0	0.0	0.0
Total current assets	A$m	21.5	44.8	54.5	67.3	104.2	117.5	131.9
Non current assets								
Trade and other receivables	A$m	0.9	0.5	0.4	0.5	0.5	0.6	0.7
Investments accounted for using the equity method	A$m	6.9	7.2	4.7	5.3	6.1	6.9	7.8
Investment in financial assets at fair value through OCI	A$m	9.1	10.5	9.4	10.7	12.1	13.7	15.6
Property, plant and equipment	A$m	0.3	0.2	0.2	0.2	0.3	0.3	0.3
Intangibles	A$m	66.7	61.0	59.7	59.7	59.7	59.7	59.7
Right of use assets	A$m	0.5	0.2	0.4	0.4	0.4	0.4	0.4
Prepayments	A$m	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Security deposits	A$m	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Total non-current assets	A$m	84.6	79.7	74.9	76.9	79.2	81.7	84.7
Total assets	A$m	106.1	124.5	129.4	144.2	183.3	199.2	216.5
Liabilities								
Current liabilities								
Trade and other payables	A$m	11.3	23.5	26.2	34.9	20.2	29.3	39.7
Employee benefits	A$m	1.0	1.1	1.6	1.7	1.8	1.8	1.9
Bank loan	A$m	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Lease liabilities	A$m	0.3	0.2	0.3	0.3	0.3	0.3	0.3
Income tax liability	A$m	0.0	5.0	5.9	5.9	5.9	5.9	5.9
Total current liabilities	A$m	13.8	31.0	35.2	44.0	29.3	38.6	49.0
Non current liabilities								
Employee benefits	A$m	0.1	0.2	0.2	0.3	0.3	0.3	0.3
Security deposits held / Other	A$m	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Bank loan	A$m	2.5	1.3	0.6	0.6	0.6	0.6	0.6
Lease liabilities	A$m	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Deferred tax	A$m	4.9	3.9	3.4	3.4	3.4	3.4	3.4
Total non-current liabilities	A$m	7.9	5.5	4.4	4.5	4.5	4.5	4.5
Total liabilities	A$m	21.6	36.4	39.7	48.5	33.8	43.1	53.5
Shareholder funds								
Contributed equity	A$m	99.4	99.8	97.2	97.2	121.2	121.2	121.2
Reserves	A$m	32.8	34.9	73.0	73.0	73.0	73.0	73.0
Retained earnings/accumulated losses	A$m	-47.6	-46.5	-80.2	-74.3	-44.5	-37.8	-31.0
Shareholder funds	A$m	84.7	88.2	89.9	95.9	149.7	156.3	163.2
Minorities	A$m	-0.2	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2
Total equity	A$m	84.5	88.1	89.8	95.7	149.5	156.2	163.0

Source: Company reports, MST Access

Cashflow statement

Figure 14 – Pengana Capital Group cash flow statements and forecasts

Date		Jun-20	Jun-21	Jun-22	Jun-23	Jun-24	Jun-25	Jun-26
Period		FY20A	FY21A	FY22E	FY23E	FY24E	FY25E	FY26E
Net cash from operating activities	A$m	6.7	10.4	14.9	18.9	22.5	25.2	29.7
Investing cash flows								
Capex - property, plant, equipment and software	A$m	-0.1	-0.1	-0.7	-1.4	-1.4	-1.4	-1.4
Acquisitions and divestures	A$m	4.3	3.0	4.0	0.0	0.0	0.0	0.0
Net cash used in investing activities	A$m	4.2	2.9	3.2	-1.4	-1.4	-1.4	-1.4
Financing cash flows								
Equity	A$m	-7.8	-7.2	-18.0	-9.1	10.8	-16.2	-20.5
Debt	A$m	-1.3	-1.3	0.0	0.0	0.0	0.0	0.0
Leases	A$m	-0.7	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3
Net cash used in financing activities	A$m	-9.7	-8.7	-18.2	-9.3	10.5	-16.5	-20.8
Net change in cash and cash equivalents	A$m	1.2	4.6	0.0	8.2	31.7	7.3	7.5
Cash and cash equivalents at the start of period	A$m	14.4	15.3	19.9	19.8	28.0	59.7	67.1
Impact of FX on cash balances	A$m	-0.3	0.0	0.0	0.0	0.0	0.0	0.0
Cash and cash equivalents at the end of period	A$m	15.3	19.9	19.8	28.0	59.7	67.1	74.6
Free cash flow to the firm	A$m	10.2	13.0	17.9	17.3	20.9	23.5	28.0
Free cash flow to equity	A$m	8.9	11.7	17.9	17.3	20.9	23.5	28.0

Source: Company reports, MST Access

Valuation

We consider a range of valuation approaches to estimate Pengana Capital Group's valuation, including:

- intrinsic valuation methods.
- peer multiples and growth rates.

Other equity market considerations such as short sales; any likely forthcoming changes in index inclusion; depth of stock research coverage; composition of and change in the mix of investors (such as founders, board and staff, domestic institutions, foreign institutions, and retail investors) are not incorporated in our valuation; however investors should consider such factors if they seek to develop a price target for the company.

We estimate PCG's equity beta to be 1.0. While we assume a risk-free rate of 2.0% and equity risk premium of 6.0%, given our assumed beta of one these are somewhat fungible and are equivalent to using a risk free rate of 3.0% and an equity risk premium of 5.0% - something investors may be more comfortable with give the recent rise in risk free rates, to achieve an overall cost of equity of 8.0%.

Discounted Free Cashflow to Equity

This is a classic DCF valuation, performed on the free cash flow available to equity shareholders of Pengana (i.e. after financing costs), and uses the free cash flow to equity presented in our cashflow statement forecasts.

We use a two-stage model, discounting the free cash flow to equity we have explicitly forecast over the next 5 years, after which time we assume free cashflow to equity grows at 3.0% in perpetuity.

Most of this valuation is contained in the terminal value.

Figure 15 – Pengana Capital Group Discounted Free Cashflow to Equity

Current date		10-May-22								
Next balance date		30-Jun-22								
		Jun-22	Dec-22	Jun-23	Dec-23	Jun-24	Dec-24	Jun-25	Dec-25	Jun-26
Free cash flow to equity	**A$m**	**6.0**	**8.5**	**8.8**	**10.4**	**10.5**	**11.5**	**12.1**	**13.6**	**14.4**
Discounted cash flow	**A$m**	**5.9**	**8.0**	**8.1**	**9.1**	**8.9**	**9.4**	**9.5**	**10.3**	**10.5**

Sum of discount streams	A$m	79.7	**CAPM**	
Future value into perpetuity	A$m	560.9	Risk free rate	2.00%
NPV of terminal value	A$m	407.9	Equity beta	1.00
add adjusted net cash and associates	A$m	22.0	Equity risk premium	6.00%
Value of total equity	**A$m**	**509.6**	Cost of equity	8.0%
Diluted shares on issue	#	109.2		
Value per share	**A$**	**4.67**	Terminal growth	3.0%
Upside/downside	%	140%		

Source: Company reports, MST Access

General Residual Income Model (GRIM)

Many financial analysts use some form of residual income or value-added valuation approach, due to the complexities and uncertainties involved in forecasting cashflow, in part due to distortions that can occur when fund consolidation onto a fund manager's balance sheet occurs. Some of the advantages of this approach are that:

- a significant proportion of the valuation is generally recognized upfront, in the net asset value providing greater certainty around a large component of the valuation.
- uses profit, rather than cashflow, forecasts.

We use a two-stage model, using our explicit forecasts over the next five years, followed by a terminal value, to which we add current net assets per share. We estimate PCG's cost of equity to be 8.0% and terminal growth of 3%. This produces a valuation of A$3.44 per share.

Figure 16 – Pengana Capital Group General Residual Income Model

Current date		10-May-22									
Last balance date		31-Dec-21									
		Dec-21	Jun-22	Dec-22	Jun-23	Dec-23	Jun-24	Dec-24	Jun-25	Dec-25	Jun-26
Book value per share	A$	1.17	1.09	1.14	1.16	1.20	1.38	1.42	1.45	1.48	1.51
Equity charge	A$		-0.05	-0.04	-0.05	-0.05	-0.05	-0.06	-0.06	-0.06	-0.06
Cash EPS	A$	0.17	0.04	0.07	0.07	0.09	0.09	0.10	0.11	0.12	0.13
Residual income	A$	**0.17**	**-0.01**	**0.03**	**0.03**	**0.04**	**0.04**	**0.05**	**0.05**	**0.07**	**0.07**
Discounted cash flow	A$	**0.00**	**-0.01**	**0.02**	**0.02**	**0.04**	**0.04**	**0.04**	**0.04**	**0.05**	**0.05**

Sum of discount streams	A$	0.3	**CAPM**	
Future value into perpetuity	A$	2.7	Risk free rate	2.00%
NPV of terminal value	A$	2.0	Equity beta	1
add net assets	A$	1.17	Equity risk premium	6.00%
Residual income value per share	**A$**	**3.44**	Cost of equity	8.0%
P/B multiple implied by GRIM valuation	x	2.95	Terminal growth	3.0%
Upside/downside	%	77%		

Source: Company reports, MST Access

Dividend Discount Model

We use a two-stage model, discounting the dividends (and the franking credits attached to them) we have explicitly forecast over the next 5 years, after which time we assume dividends grow at 3% in perpetuity. We assume a cost of equity of 8%.

This produces a valuation of A$3.00, including franking credits. If we were to completely exclude the value of franking credits from our dividend discount model, the equity value calculated would instead be A$2.10.

We note that most of this valuation is contained in the terminal value.

In our experience the dividend discount model tends to produce a very conservative valuation compared to the other methods detailed above and note that Pengana's share price has recently been trading around the level of this valuation.

Figure 17 – Pengana Capital Group Dividend Discount Model

Current date		10-May-22								
Next balance date		30-Jun-22								
		Jun-22	Dec-22	Jun-23	Dec-23	Jun-24	Dec-24	Jun-25	Dec-25	Jun-26
Dividends	A$	0.04	0.07	0.07	0.09	0.07	0.08	0.09	0.10	0.10
Franking rate	%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Total dividend value	**A$**	**0.06**	**0.10**	**0.10**	**0.13**	**0.10**	**0.11**	**0.13**	**0.14**	**0.14**
Discounted cash flow	**A$**	**0.06**	**0.10**	**0.09**	**0.11**	**0.08**	**0.09**	**0.10**	**0.11**	**0.10**

Sum of discount streams	A$	0.92	**CAPM**	
Future value into perpetuity	A$	2.86	Risk free rate	2.00%
NPV of terminal value	A$	2.08	Equity beta	1
Equity value	**A$**	**3.00**	Equity risk premium	6.00%
			Cost of equity	8.0%
Upside/downside	%	54%	Terminal growth	3.0%

Source: Company reports, MST Access

Peer comparative valuation multiples

Figure 18 –Peer comparative valuation multiples for Pengana Capital Group

Identifier (RIC)	Company Name	AuM (US$bn)	Forward P/E	Trailing P/CF	Forward P/CF	P/B	Trailing EV/EBITDA	Forward EV/EBITDA	Trailing EV/Revenue	Forward EV/Revenue
PCG.AX	Pengana Capital Group Ltd	3.0	10.5	17.8	11.6	1.7	10.1	6.5	2.8	2.4
AEF.AX	Australian Ethical Investment Ltd			77.1		39.2	56.5		18.9	
FID.AX	Fiducian Group Ltd	7.8		13.3		4.9	9.6		4.6	
GQG.AX	GQG Partners Inc		11.4	12.4	9.5	13.0	11.5	8.5	9.6	6.0
IFL.AX	Insignia Financial Ltd		9.0			1.1	9.9	6.2	3.4	1.6
JHG	Janus Henderson Group PLC	432.3	9.3	10.8	6.7	1.5	5.9	5.1	2.1	1.5
MAM.AX	Microequities Asset Management Group Ltd			6.4		4.6	4.1		3.5	
MFG.AX	Magellan Financial Group Ltd		6.8	35.7	7.3	10.0	15.7	5.0	13.9	4.0
PAC.AX	Pacific Current Group Ltd		12.2	13.9	14.7	0.7	12.0		6.3	
PDL.AX	Pendal Group Ltd	100.6	10.0	14.6	9.3	2.1	12.3	6.5	4.8	2.5
PNI.AX	Pinnacle Investment Management Group Ltd	67.0	20.5	31.6	23.3	8.8	589.1	19.0	68.6	37.6
PPT.AX	Perpetual Ltd		12.1	18.6	14.0	2.5	13.5	7.2	3.4	2.3
PTM.AX	Platinum Asset Management Ltd	17.6	8.7	17.2	8.4	8.3	13.9	4.9	9.9	3.3
	Australian average		**11.1**	**22.9**	**11.7**	**8.1**	**62.8**	**7.8**	**12.4**	**7.4**
	Australian median		**10.0**	**14.6**	**9.4**	**4.7**	**12.2**	**6.3**	**5.5**	**2.9**
ABDN.L	Abrdn PLC	733.4	14.5	4.4	15.1	0.7	-0.1	9.0	0.0	1.9
AMG	Affiliated Managers Group Inc	813.8	6.7	7.8	7.8	2.6	9.3	8.6	3.9	3.5
AMUN.PA	Amundi SA	2,346.4	8.8	9.7	8.3	1.4	13.9	13.4	7.5	6.7
ARES.K	Ares Management Corp	256.0	19.5	14.4	20.8	12.9	34.8	39.4	8.7	11.0
APAM.K	Artisan Partners Asset Management Inc	174.8	9.0	6.2		13.4	7.0	6.9	3.2	2.6
ASHM.L	Ashmore Group PLC	97.1	10.0	11.0	10.2	2.8	7.1	4.2	5.1	2.7
AC	Associated Capital Group Inc	1.8		14.9		1.0	11.3		7.4	
BLK	BlackRock Inc	10,010.1	15.3	21.4	14.7	3.7	15.4	11.3	8.3	4.6
BSIG.K	Brightsphere Investment Group Inc	117.2	10.4	13.7			17.4	5.8	4.2	2.1
CLIG.L	City of London Investment Group PLC		8.9	11.2		2.3	8.9		4.7	3.1
CNS	Cohen & Steers Inc	106.6	17.6	19.6		17.5	15.9	13.3	8.5	5.9
DHIL.O	Diamond Hill Investment Group Inc	31.0		8.0		3.3	5.4		2.7	
EV.MX	Eaton Vance Corp	515.7		41.4		4.9	25.0		6.1	
EQTAB.ST	EQT AB	83.0	25.6	46.9	24.8	16.1	52.6	22.1	29.9	13.0
FHI	Federated Hermes Inc	668.9	10.2	11.6	10.0	3.2	8.6	7.1	2.8	1.9
FSGF.L	Foresight Group Holdings Ltd		18.0	24.3		11.6	24.0	13.1	6.3	4.7
BEN	Franklin Resources Inc	1,530.1	6.7	6.1	8.6	1.3	6.5	7.0	2.1	2.1
GAMH.S	GAM Holding AG	109.5				0.4	1.7		0.1	
GBL	GAMCO Investors Inc	35.0		9.0		7.1	4.9		2.0	
HNNA.O	Hennessy Advisors Inc	4.1		8.8		0.9	5.0		2.2	
IGM.TO	IGM Financial Inc	194.2	9.4	10.1	11.2	1.7	13.3	10.3	8.2	4.2
IVZ	Invesco Ltd	1,610.9	7.1	5.5	6.2	0.9	11.9	10.1	4.8	4.2
BAER.S	Julius Baer Gruppe AG	528.1	8.7	9.9	6.4	1.9	7.3		2.9	0.8
JUP.L	Jupiter Fund Management PLC	81.9	9.5	8.1	9.8	1.6	4.6	4.0	1.9	1.3
MN	Manning & Napier Inc	22.5		5.9		1.7	1.4		0.4	
N91.L	Ninety One PLC	180.4	12.0	12.8	5.2	8.7	-33.7		-10.2	
PGHN.xt	Partners Group Holding AG	127.2	22.7	26.7	22.6	13.8	23.7	19.3	15.6	12.5
POLR.L	Polar Capital Holdings PLC		8.6	10.6	7.3	4.5	6.7	4.7	2.7	1.6
PZN	Pzena Investment Management Inc	52.5		7.0		15.4	6.6		3.6	
RIV.L	River and Mercantile Group PLC	66.1		14.1		3.0	9.9		2.1	6.7
SCU	Sculptor Capital Management Inc	38.1	4.5	36.7			16.5		3.2	3.1
SAMG.O	Silvercrest Asset Management Group Inc	27.8	11.0				6.1	6.9	1.6	2.1
8739.T	Sparx Group Co Ltd			12.8		2.2	6.6		3.2	
TROW.O	T Rowe Price Group Inc	1,687.8	11.8	13.6	11.0	5.0	11.0	7.7	5.7	3.7
GROW.O	US Global Investors Inc	4.2		2.9		1.7	3.7		2.2	
0806.HK	Value Partners Group Ltd	10.0	11.2	14.5	11.7	1.4	14.3		6.5	2.1
VCTR.O	Victory Capital Holdings Inc	183.7	5.3	9.1	4.7	2.7	8.4	6.2	4.0	3.1
VRTS.O	Virtus Investment Partners Inc	187.2	5.2	7.6		2.7	10.8	8.7	4.3	3.7
WHG	Westwood Holdings Group Inc	14.5		11.1		1.2	3.6		0.7	
WETF.O	Wisdom Tree Investments Inc	48.2	15.0	19.5	22.4	3.3	11.9	11.5	3.5	3.1
	International average		**11.5**	**13.9**	**11.9**	**4.9**	**10.5**	**10.9**	**4.6**	**4.2**
	International median		**10.1**	**11.1**	**10.1**	**2.7**	**8.7**	**8.7**	**3.6**	**3.1**

Note: we include Janus Henderson in the Australian grouping given its ASX CDI listing, thus making it easily accessible to domestic investors.

Source: IBES consensus, Refinitiv, MST Access estimates for PCG

Governance considerations

Strong board alignment with shareholders, but it fails the ASX CGC's gender targets

Figure 19 – Board composition

Position	Director	Shareholding	Shareholding value (A$)	2021 remuneration (A$)	Share value > remuneration	%SOI
INED Chair	Warwick Negus	3,681,763	7,842,155	140,000	TRUE	3.4%
MD and CEO	Russell Pillemer	26,578,448	56,612,094	636,293	TRUE	24.3%
INED	Jeremy Dunkel	1,944,628	4,142,058	90,000	TRUE	1.8%
INED	Kevin Eley	426,551	908,554	80,000	TRUE	0.4%
INED	David Groves	777,941	1,657,014	100,001	TRUE	0.7%

Based upon a share price of $2.13 per share. Source: Company reports, MST Access

Pengana's board is extremely well aligned with shareholders, with all of its board members holding meaningful shareholdings worth significantly more than their annual board fees.

If we were to fault this extremely well qualified board, it would be that none of the board members are female, thus falling foul of the ASX's Corporate Governance Council's target of at least 30% of the board's membership being female for companies in the ASX300; although as we discuss later, the illiquidity in Pengana's stock means that it is unlikely to qualify for the ASX300 in the near future. The appointment of a couple of females to the board (noting that both Pengana's company secretary and CFO are both highly experienced women), and the retirement of a male board member, would be all that is required to meet this target, so we can see Penganga easily achieving this target should it seek to meet it.

Board of directors

Figure 20 – Pengana Capital Group Board of Directors

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

Source: Company reports, MST Access

Warwick Negus – Chairman

Warwick Negus was appointed as Chairman of the Pengana board in 2017.

Warwick has more than has more than 30 years' experience in the finance industry across Asia, Europe and Australia.

His previous executive roles include the Chief Executive Officer of Colonial First State Global Asset Management, Co-founder and Chief Executive Officer of 452 Capital, and a Managing Director of Goldman Sachs in Australia, London and Singapore. He was also a Vice President of Bankers Trust Australia.

Warwick is currently a director of Washington H Soul Pattinson and Company Limited, Bank of Queensland, Terrace Tower Group, Virgin Australia Holdings Limited and FINSIA. He is also a member of Council of University of NSW and Chairman of ASX listed URB Investments Limited.

Russel Pillemer - Chief Executive Officer

Russel Pillemer co-founded Pengana in 2003. He has been the company's Chief Executive Officer since inception.

Prior to founding Pengana, Russel worked in the Investment Banking division of Goldman Sachs in New York where he specialised in providing advice to funds management businesses. Before moving to New York, he was responsible for leading Goldman Sachs' Australian Financial Institutions Group.

Russel was previously Chairman of Centric Wealth Group and a principal of Turnbull Pillemer Capital.

He is a member of the Institute of Chartered Accountants in Australia and has a Bachelor of Commerce (Hons) from the University of New South Wales.

Kevin Eley - Non-Executive Director

Kevin Eley was appointed Non-Executive Director of Pengana Capital Group in 2017, having previously been Non-Executive Chairman of Hunter Hall International in May 2016, prior to the merger with Pengana Capital.

Kevin is a Chartered Accountant, a Fellow of the Financial Services Institute of Australia and a Fellow of the Australian Institute of Company Directors.

He has over 31 years' experience in management, finance and investment and has worked for a major international accounting firm, two investment banks and was Chief Executive Officer of HGL Limited. Some of his current non-executive directorship include Equity Trustees Limited, Milton Corporation Limited and HGL Limited.

Jeremy Dunkel - Non-Executive Director

Jeremy Dunkel is a Non-Executive Director of Pengana, and a Director of Taurus Capital, a family office investment consultancy specialising in philanthropy.

His accounting and finance experience includes working for Chemical Bank, Chase Manhattan and Price Waterhouse. He is a director of Education Heritage Foundation, and the Moriah College Foundation, as well as the chair of Y2i.

David Groves

David has over 25 years' experience as a company director. He is Chairman of Tasman Sea Salt Pty Ltd and is a non-executive director of Pengana International Equities Limited, Redcape Hotel Group Management Ltd as responsible entity of the Redcape Hotel Group and of Pipers Brook Vineyard Pty Ltd. He is a former director of EQT Holdings Ltd, Tassal Group Ltd and GrainCorp Ltd and a former executive with Macquarie Bank Limited and its antecedent, Hill Samuel Australia.

David is a member of the Council of Wollongong University. He is a member of Chartered Accountants Australia and New Zealand and a fellow of the Australian Institute of Company Directors.

Senior management

Figure 21 – Pengana Capital Group Senior Management

Russel Pillemer	Chief Executive Officer
Katrina Glendinning	Chief Financial Officer
Nick Griffiths	Chief Investment Officer
Adam Myers	Executive Director
Keith McLachlan	Chief Operating Officer
Paula Ferrao	Executive Director
Dean Weinbren	Executive Director
Daniel Fine	Head of Direct Clients

Source: Company reports, MST Access

Katrina Glendinning - Chief Financial Officer

Katrina is the Chief Financial Officer of Pengana and has held this role since the inception of the company in 2003. She is an Executive Director of Pengana Capital and Pengana Investment Management Limited and is a member of Pengana's Compliance and Risk Management Committees.

Katrina is an experienced financial services executive with over 25 years' experience across a diverse range of products, investors and regulatory regimes.

Prior to joining Pengana, Katrina was an Executive Vice President at BT Funds Management where she held a number of roles in the nine year period. Prior to that she worked for Price Waterhouse specialising in banking and financial services audit.

Katrina has a Bachelor of Economics from the University of Sydney, is an Australian Chartered Accountant, a Fellow of FINSIA and a Graduate of the Australian Institute of Company Directors.

Nick Griffiths - Chief Investment Officer

As Chief Investment Officer, Nick is responsible for manager monitoring, performance analysis and risk management across Pengana's investment strategies. He also chairs the Risk Management Committee and is an Executive Director of Pengana Capital.

Nick has more than 20 years' experience in the actuarial and investment industries in the UK and Australia. Prior to his current role, Nick was Head of Investment Research within Aon's Investment Consulting Practice in Sydney.

Nick is a qualified Actuary and CFA Charter holder. He was educated in England and holds a Law and Economics degree from the University of Durham.

Adam Myers - Executive Director

Adam Myers is an Executive Director and leads the distribution team at Pengana. Adam also has oversight of strategic initiatives and responsibility for the quantitative and structuring capability within the group.

Adam developed an appreciation of market risk during a 15-year career trading equity derivatives, structuring derivative transactions and managing equity derivative traders.

Over the years Adam has developed a passion for ethical and sustainable investing, and has championed Pengana's best-of-breed responsible investment Funds. He is also the investment specialist for the Pengana WHEB sustainable impact Fund.

Prior to joining Pengana, he headed the Equity Derivatives business at Investec Bank in South Africa and the Corporate Equity Structuring function at Investec Bank in Australia.

Adam holds a Bachelor of Commerce (Hons) from the University of Johannesburg.

Keith McLachlan - Chief Operating Officer

Keith is Chief Operating Officer at Pengana. Keith has almost twenty years' experience in the financial services industry.

Prior to joining Pengana in August 2015, Keith was a General Manager at Perpetual where he led operational and technology teams supporting the funds management and private clients' businesses. Before that, Keith served in operational leadership roles in the Metropolitan Police Service in London. Keith has significant experience in operational management, project delivery, and leading organisational change.

Keith has a Bachelors in Business Studies from the Bristol Business School and is Fellow of FINSIA.

Paula Ferrao - Executive Director

Paula Ferrao is an Executive Director, having previously been interim Chief Executive Officer of Hunter Hall International Limited (HHL) and Chief Financial Officer of HHL since 2010.

Paula has 19 years' experience in the funds management industry with strong expertise in financial reporting and tax for corporate entities, listed investment companies, managed investment schemes and public offer superannuation funds and in all aspects of fund operations.

Paula was previously the Company Secretary of HHL, an Executive Director of Hunter Hall International (UK) Limited and of Rushcutter Investments Pty Limited, a Trustee of Hunter Hall Charitable Fund and a member of the Hunter Hall Charitable Committee.

Paula holds a Bachelor of Business from the University of Technology, Sydney.

Dean Weinbren - Executive Director

Dean Weinbren is an Executive Director, with oversight of Marketing, Media Partnerships and Investor Relations across the Pengana Group.

Prior to joining Pengana, Dean's previous experience includes the set-up and management of one of Australia's largest non-aligned risk insurance advice firms, as well as having founded and run both digital and experiential media agencies for major corporate sponsors.

Dean holds a BSocSci in Organisational Psychology and Industrial Sociology from the University of Cape Town, South Africa, as well as an Advanced Diploma in Financial Planning.

Daniel Fine - Head of Direct Clients

Daniel Fine is the Head of Direct Clients, servicing all of Pengana's direct client relationships.

Prior to joining Pengana, Daniel was the founder and director of a general insurance business in South Africa, focusing on domestic and commercial business.

Daniel holds a Bachelor of Commerce from the University of Witwatersrand in Johannesburg, South Africa.

Substantial shareholders include the CEO and staff share plan

Figure 22 – Substantial shareholders as at 19 August 2021

Substantial holders

Substantial holders in the company are set out below:

	Ordinary shares	
	Number held	% of total shares issued
Washington H Soul Pattinson and Company, WHSP Hunter Hall Pty Ltd and WHSP Pengana Pty Ltd	39,827,904	38.60
Pengana Capital Group Limited	21,651,367	20.98
Russel Craig Pillemer *	34,892,763	33.82

Source: Company reports, MST Access

Most of PCG's stock is held by its substantial shareholders, namely entities associated with WH Soul Pattinson, the staff share plan and the CEO, who also cofounded the company. As a result, the 3 substantial shareholders collectively own 93.4% of the company. Several of its funds' portfolio managers also appear in its top 20 shareholders given their staff share plan holdings; resulting in Pengana's top 20 shareholders (at 19 August 2021) owning 79% of the company, and top 61 shareholders owning 90% of the company.

While this concentrated register ensures strong management and staff alignment with shareholders, this concentrated share register significantly reduces liquidity in the stock and also means that it is unlikely to enter any free float based index (i.e. ASX300 or higher) while such a concentrated share register remains. Somewhat paradoxically, this may actually boost its appeal with some micro-cap fund managers.

No short interest year to date

Pengana Capital Group has zero short selling activity occur in its stock year to date, with the stock not appearing in ASIC's latest short position reports. With no shares on issue short sold year to date a short squeeze in the stock is currently very unlikely.

Sustainability considerations

Fund managers themselves tend to have a relatively small environmental footprint, consisting of a small office-based team, with occasional travel.

ESG fund managers tend to be quite conscious of their environmental footprint, and a substantial portion of Pengana's AuM is in its ESG funds.

Furthermore, Pengana's partnerships business model means that its fund managers tend to be more closely located to where their investments are, reducing their travel footprint.

Pengana's Sydney head office is a 6 star (Green Star Design and As-Built v1 2020) office building, thus keeping the environmental impact of its office footprint to a minimum.

Background on each of Pengana's funds

Figure 23 – Pengana's funds as at 31 December 2021

COMPELLING TRACK RECORDS WITH CAPACITY TO GROW (AS AT 31/12/2021)

PENGANA CAPITAL

Primary Fund/Vehicle Name	Strategy	Team	FUM Current ($m)	Indicative Further FUM Capacity ($bn)	Performance Since Inception p.a. [13]		
					Fund %	Benchmark %	Relative %
Pengana Australian Equities[1]	Australian Multi Caps	Internal	958	Limited	10.0	7.2	2.8
Pengana Emerging Companies[2]	Australian Small Caps	Internal	956	Limited	14.2	6.0	8.2
Pengana Axiom International Ethical [3]	Global, Multi Caps, Ethical	JV	452	Very large	9.4	8.2	1.2
Lizard Global Small [4]	Global, Small Caps	Internal	390	~2bn	9.2	8.5	0.7
Pengana International Equities Ltd (LIC) [5]	Global, Multi Caps, Ethical	JV	389	Very large	9.4	8.8	0.6
Pengana Private Equity (LIT) [6]	Global, Multi Caps	JV	374	Very large	13.3	-	-
Pengana WHEB Sustainable Impact [7]	Global, Multi Caps, Impact	JV	287	~$800m	7.4	7.7	(0.3)
Pengana Global Small Companies[8]	Global, Small Caps	Internal	195	~$500m	9.8	10.5	(0.7)
Pengana Harding Loevner International [9]	Global, Multi Caps, ESG	JV	71	Very large	10.1	7.4	2.7
Pengana High Conviction Equities[10]	Global, Multi Caps	Internal	48	~$200m	29.6	13.6	16.0
Pengana Alpha Israel[11]	Israel, Small-Mid Caps	JV	37	~$500m	9.3	9.6	(0.3)
Pengana High Conviction Property [12]	Australian, Multi Caps, ESG	Internal	13	~$700m	23.8	10.6	13.2

1. Benchmark: ASX All Ordinaries Accumulation Index, Inception Jul-08 2. Benchmark: ASX Small Ordinaries Accumulation Index, Inception Nov-04 3. Benchmark: MSCI AC World Total Return Index (Net), Strategy Inception Jun-04 4. Lizard International Master Fund LP, Benchmark: MSCI ACWI SMID Cap, Inception Dec-08 5. Benchmark: MSCI World Total Return Index (Net), Inception Mar-04 6. Inception Apr-19 7. Benchmark: MSCI World Total Return Index (Net), Strategy Inception Jan-06 8. Benchmark: MSCI AC World SMID Cap Index (Unhedged)2, Inception Apr-15 9. Benchmark: MSCI AC World Total Return Index (Net), Strategy Inception Nov-89 10. Benchmark: MSCI World Total Return Index (Net)2, Inception Dec-14 11. Benchmark: Tel Aviv Stock Exchange 125 Index, Inception Dec-17 12. Benchmark: S&P/ASX 200 A-REIT TR Index2, Inception Feb-20 13. Performance Since Inception to 31 December 2021

Source: Company reports, MST Access

Each of Pengana's funds consists of a small talented team who collectively deliver impressive performance for their fund and Pengana as a whole. While succession risk may be an issue in time, Pengana's house of fund structure enables it to provide each of these funds with the support to internally develop team members to prevent succession risk from becoming an issue. Additionally, all fund managers are well aligned to Pengana, so we do not see a risk of unwanted departures.

Core Funds

Pengana Australian Equities

Figure 24 – Pengana Australian Equities Team

Rhett Kessler	CIO and Senior Fund Manager
Anton du Preez	Deputy CIO and Fund Manager
Mark Christensen	Investment Analyst
Chris Tan	Investment Analyst
Stephanie Doran	Trader
David Glasser	Investment Analyst

Source: Company reports, MST Access

The Pengana Australian Equities Fund aims to enhance and preserve investor wealth over a 5 year period via a concentrated core portfolio of principally Australian listed securities.

The Fund seeks to generate consistent superior investment returns using fundamental analysis to select and own securities with the following characteristics:

- Good businesses with transparent and resilient business models
- Competent management with a track record of integrity
- A favourable relationship between the market price and the future cash flows of the business

The Fund's experienced investment team undertakes proprietary research to assess both qualitative and quantitative factors to build a concentrated portfolio of stocks.

The Fund's beliefs are

- Limited capacity of fund to maintain performance
- In business of trying to protect capital and making money (not beating the market)
- Benchmark unaware
- Binary outcomes (even ten baggers) not for us
- If we cannot find investment that justify the risk, stay in cash
- Information arbitrage happens at a granular level of details
- Tax aware
- Clients are co-investors.

Pengana Axiom International Ethical

Figure 25 – Pengana Axiom International Ethical Team

Bradley Amoils	Managing Director/Portfolio Manager
Andrew Jacobson	CEO/Chief Investment Officer
Jonathan Ellis	Director of Research/Portfolio Manager
Carl D. Brown	Vice President/Research Analyst
Anna K. Browning	Research Analyst
Steven Espinosa	Research Analyst
Tyler Gaylord	Vice President/Research Analyst
Alexander Harrison	Research Analyst

Source: Company reports, MST Access

The Pengana Axiom International Ethical Fund invests in companies that are dynamically growing and changing for the better, more rapidly than generally expected and where the positive changes are not yet reflected in expectations or valuation. The fund provides an option of HEDGED or UNHEDGED portfolios of dynamic and growing companies undergoing positive change, within a robust ethical framework.

The Global Equity Strategy seeks dynamic growth by concentrating its investments in global developed markets, and may also invest in companies located in emerging markets. The investment manager is Axiom Investors, a Connecticut-based global equity fund manager formed in 1998 with over US$19 billion in assets under Management. The feature of dynamic growth include all-cap growth portfolio, dynamism factors, company position factors and manage and adjust. The fund has consistent, empirical, forward – looking process, steps include 1) Identify 2) Analyse 3) Construct 4) Adjust.

Axiom believes that ESG factors are material to achieving investment outperformance and managing investment risk. Therefore, it has integrated ESG into its dynamic growth investment process since its inception in 1998. It believes that significant investment opportunities arise when companies improve their ESG characteristics.

To advance favourable outcomes, the investment team incorporates ESG considerations into the regular engagement with company management. Axiom evaluates progress on an ongoing basis and incorporates those developments into the proprietary risk and return rating, which influences the position sizing and proxy voting. The fund complies with ESG standards & Ethical investing without comprising returns. Axiom is a signatory to the Principles for Responsible Investing (PRI) and has a dedicated ESG leadership committee, composed of senior executives from every functional area of the firm, that works across the organization to ensure that everyone is advancing the ESG policies and practices. The ethical policy states the permissible extent of an investee company's business involvement in screened activities. Any company that does not meet the requirements of the screen is removed from the investable universe.

Figure 26 – Pengana Axiom International Ethical Framework

Source: Company reports, MST Access

Pengana Harding Loevner International

Figure 27 – Pengana Harding Loevner International Team

Peter Baughan	Portfolio Manager
Jingyi Li	Portfolio Manager
Ferrill D. Roll	CIO, Analyst (Financials)
Hannah Chase	Portfolio Specialist
Ray Vars	Portfolio Specialist

Source: Company reports, MST Access

The Pengana Harding Loevner International Fund invests in high-quality, growing companies identified through fundamental research with a long-term, global perspective. Pengana has appointed Harding Loevner to managed the Fund. Harding Loevner is a New Jersey-based global equity fund manager formed in 1989 with over US$86 billion in Assets under Management. Harding Loevner' analysts search the world for companies that meet their high quality and durable growth criteria, conduct fundamental research, then value and rate their stocks to make them available to PMs for investment.

Investment Philosophy

Harding Loevner believe investing in high-quality, growing businesses at reasonable prices leads to superior risk-adjusted returns over the long term. This “quality-growth” investment philosophy has been the foundation of Harding Loevner's strategies since the firm was founded in 1989. The philosophy is expressed in the four key criteria that a company must meet before being considered for investment:

- **Competitive Advantage** - Sustainable return on capital above cost of capital within a supportive industry position enabling it to earn better financial returns than rivals.
- **Sustainable Growth** - An industry structure supporting long-term growth in revenues, earnings, and cash-flow . Growth underpinned by long-term fundamental trends, not ephemeral factors.
- **Financial Strength** - Balance sheet strength and free cash flow generation to fund long-term growth in all environments.
- **Quality Management** - Skilful management with a good record, a clear strategy, and a consistent regard for shareholders.

Harding Loevner believes that structure, transparency, debate and individual accountability mitigate human biases, lead to better decisions, and align their individual objectives with their clients' objectives.

- **Collaboration Without Consensus** - The investment team collaborate to foster opposing viewpoints, not to achieve consensus. Individuals, not committees, make decisions and are solely accountable for the results.
- **Long Term Horizon** - Undistracted by high-frequency information that is often noise, Harding Loevner focus on a few fundamental signals that show companies' progress in creating value. Equity-based compensation aligns their goals and time horizon with those of their clients.

- **Replication Through a Disciplined Process** - Success can only be replicated through a repeatable process. Harding Loevner's structured investment process mitigates the unconscious biases that plague human decision-making.
- **Transparency** - Requiring views to be written and broadly shared lets the analysts see what others are thinking and puts them on the record. This transparency facilitates objective appraisal of contributions and continuous self-improvement, at the level of both the individual and the organization.

Pengana International Equities Ltd (LIC) (ASX: PIA)

Figure 28 – Pengana International Equities Ltd (LIC) (ASX: PIA) Team

Peter Baughan	Portfolio Manager
Jingyi Li	Portfolio Manager
Ferrill D. Roll	CIO, Analyst (Financials)
Hannah Chase	Portfolio Specialist
Ray Vars	Portfolio Specialist

Source: Company reports, MST Access

Pengana International Equities Limited (trading on the ASX as 'PIA') is a Listed Investment Company ("LIC") that exists to provide shareholders with continued capital growth as well as regular, reliable, and fully franked dividends. The strategy aims to generate superior risk-adjusted returns, through investing in an actively managed portfolio of global companies that meet the team's high quality and durable growth criteria at reasonable prices. A robust responsible investment framework provides an added layer of risk mitigation. The companies are identified must exhibit the following four key investment criteria: competitive advantages, quality management, financial strength, and sustainable growth potential. Harding Loevner was appointed the investment manager on 10th May 2021. Harding Loevner is a New Jersey-based global equity fund manager formed in 1989 with over US$84 billion in Assets under Management and also manages the Pengana Harding Loevner International fund. It uses the same investment philosophy and screening process for PIA.

Benefits of investing in PIA's LIC structure

- Shares can be bought and sold on the ASX
- Quarterly-annual fully franked dividends
- Investment activities are not affected by redemptions or unexpected cash inflows or outflows
- Regular reporting to shareholders e.g. semi-annual financial reports and weekly NTA
- Shareholders can interact with directors and management
- The company is subject to ASX and ASIC supervision

The portfolio utilises a negative screening process which seeks to avoid investment in companies that derive operating revenues from direct and material business involvement in the following:

Small Capitalisation Funds

Pengana Emerging Companies

Figure 29 – Pengana Emerging Companies Team

Ed Prendergast	Senior Fund Manager
Steve Black	Senior Fund Manager

Source: Company reports, MST Access

Launched in 2004, the Pengana Emerging Companies Fund invests in a portfolio of small-cap industrial companies.

The Fund's investment strategy is based on an underlying belief that smaller companies' share prices are often incorrectly priced. The fund investment approach includes:

- **Active Approach** - Many inefficiencies exist in the small caps market, enabling our team to identify mispriced opportunities.

- **Focus on minimizing risks** - Our stringent research enables lower risk exposure to quality small cap companies.
- **Limited fund size** - Limiting the size of the Fund helps to maintain a nimble investment approach.
- **Conservative investment approach** - The Fund does not own resources companies and looks to avoid loss-making companies

The investment process focuses on a very active company visitation program to assess management quality and over time the investment team will visit most of the 800 companies in its universe based on the team's qualitative-based approach also focuses on product/service quality, competitive advantage, growth prospects, and financial position. The fund only invests in companies that can be valued with relative confidence, it will not own resource companies, listed property trusts or loss-making companies.

Pengana Global Small Companies

Figure 30 – Pengana Global Small Companies Team

Jon Moog	Chief Investment Officer and Portfolio Manager
David Li	Head of Research and Portfolio Manager
Michael Ryan	Research Analyst
Tam Phan	Research Analyst

Source: Company reports, MST Access

The Pengana Global Small Companies Fund is an actively managed portfolio of global small-cap stocks.

The Fund's investments are managed by specialist US-based manager Lizard Investors LLC, who create and actively manage small-cap portfolios typically owned by large institutions. The investment manager uses a value-oriented approach to identify and invest in quality businesses that create significant value but are mispriced, overlooked, or out of favour. The portfolio is well-diversified across different geographies and industries.

Why global small caps?

- **Potential for higher returns:** Global small-cap stocks have the potential to deliver higher returns (alpha) due to the underlying growth potential of the companies.
- **Access to a vast investment universe:** With over 50,000 listed global small to mid-cap companies on world stock markets, there are many opportunities for investment managers that can generate their own ideas and conduct independent research.
- **Global small caps are under-owned:** Over 90% of all listed companies have a market cap of less than $3bn; Small- and mid-cap companies comprise 32% of global market capitalisation, yet investors only have a 3% allocation
- **Active Management is essential:** Small companies are inherently less efficient than large companies. Relative inefficiency creates opportunities for active managers; The vast majority of small-cap companies do not have analyst coverage

Investment opportunities must meet all the following 5 criteria to be considered for inclusion in the portfolio:

- **Sustainable Business Model**: Enduring competitive advantage
- **Strong Balance Sheet**: Able to self-fund if capital markets close
- **Disciplined And Aligned Management**: Motivated by return on invested capital
- **Corporate Governance**: Protects minority shareholders
- **Compelling Valuation**: Inexpensive relative to unlevered free cash flow

Speciality Funds

Pengana Private Equity (LIT) (ASX: PE1)

Figure 31 – Pengana Private Equity Team

Jonathan R. Levin	President, Chair of the Global Investment Council
Jason L. Metakis	Managing Director, GCM Private Markets Investment Committee Member
Frederick E. Pollock	Managing Director, Head of GCM Strategic Investments Group and Portfolio Manager of Pengana Private Equity Trust (PE1)
Brian W. Sullivan	Managing Director, Head of Private Equity Secondaries
Bradley H. Meyers	Managing Director, Head of Portfolio Management

Source: Company reports, MST Access

The Pengana Private Equity Trust (ASX: PE1) gives investors the opportunity to access a diversified portfolio of global private market investments, with a select allocation to private credit and opportunistic investments. PE1 has traded on the ASX since April 2019. The Trust is managed by Grosvenor Capital Management L.P, one of the largest and longest continually operating allocators to alternative investments in the world. PE1 seeks to generate, over an investment horizon of at least 10 years, attractive returns and capital growth through a selective and diversified approach to private market investments.

Income: PE1 targets a cash distribution yield equal to 4%p.a.

Access: The Trust provides investors with exposure to oversubscribed or difficult-to-access middle-market managers globally via a single point of entry to a well-diversified portfolio of private equity investments.

Liquidity: The structure of the listed Trust allows small and large investors to gain exposure to private equity with the flexibility to buy and sell units on the ASX so long as an active market exists.

Portfolio Companies: PE1 aims to provide investors with access to the top-performing quartile of global private equity managers, and boasts exposure to over 350 underlying private companies.

Pengana WHEB Sustainable Impact

Figure 32 – Pengana WHEB Sustainable Impact Team

George Latham	Managing Partner
Seb Beloe	Partner, Head of Research
Ted Franks	Partner, Fund Manager
Victoria MacLean	Associate Fund Manager
Ty Lee	Associate Fund Manager
Ben Kluftinger	Senior Analyst
Claire Jervis	Analyst

Source: Company reports, MST Access

Pengana has appointed UK-based WHEB Asset Management LLP (WHEB) to manage the Fund. WHEB is a global leader in sustainable investing with a focus on the opportunities created by the transition to more sustainable, resource-efficient, and energy-efficient economies. The portfolio is actively managed and stock selection is based on deep research integrating financial factors with environmental, social and governance factors. The Pengana WHEB Sustainable Impact Fund focuses on companies which produce goods and services that provide a positive environmental and social impact.

WHEB have identified critical environmental and social challenges facing the global population over the coming decades. WHEB invests in a diverse portfolio of global companies providing solutions to these sustainability challenges via nine sustainable investment themes:

Figure 33 – Pengana WHEB Sustainable Impact themes

Source: Company reports, MST Access

Core to our investment philosophy:

- Measurement of investment impact: WHEB measures, calculates and reports on the extent of positive social and environmental impact from investing in the Fund.
- Diversification: The portfolio will consist of approximately 50 global companies, with usually no more than 2.9% of the Fund invested in each. This portfolio will have materially different exposures to broad global indices.
- In-depth research: The WHEB investment team conducts an in-depth review of candidates for inclusion in the portfolio, using quantitative screens and thematic research to evaluate opportunities.
- Proven investment expertise: The Fund's investment manager, WHEB, is world-renowned for its experience, innovation and thought leadership in sustainable investing.

Pengana Alpha Israel

Figure 34 – Pengana Alpha Israel Team

Gabi Dishi	Founder & CEO
Michael Weiss	Founder & Managing Partner
Aviran Revivo	Managing Partner
Sagi Ben-Yosef	Managing Partner

Source: Company reports, MST Access

The Pengana Alpha Israel Fund invests principally in listed Israeli companies that produce cutting edge – both high and low tech – technologies. These Israeli companies have developed solid intellectual property coupled with strong global distribution. The Fund offers Australian Wholesale investors diversification into a unique and promising market that is very much skewed to industries and technology sectors which are either limited, or do not exist, in the Australian market place, such as the semiconductor industry, solar and water treatment technology, aerospace and electronic defence industries, and cybersecurity technologies. The Pengana Israel Alpha Fund is managed by Alpha LTI, a boutique Israel manager established in 2005 with an impressive track record.

ALPHA typically focused on:

- high-growth Israeli industries that have competitive technological, product or market advantages
- mature and profitable companies
- companies that are under the radar with low analyst coverage
- companies that have best-in-class management
- companies that place a fundamental emphasis on free cash flow – enabling consistent dividend payouts
- Private IPOs with lucrative growth potential

The Pengana Alpha Israel Fund is uniquely positioned to capture the investment opportunities in some of Israel's most attractive sectors with a locally based investment team in possession of an established reputation and deep industry ties. THE ISRAEL opportunity – a global leader in innovation & technology.

- Israel ranks #1 in the world in expenditure on research and development as a percentage of GDP.
- Israel contains the largest number of NASDAQ-listed companies in the world outside of the US and China, despite having a population of less than 9 million people.
- Largest number of start-ups per capita in the world – around 1 start-up for every 1400 people.
- 450+ Listed Equity Companies, 64 cross-listed abroad
- 9 Universities, 12 Nobel Laureates
- More than 270 multinational corporations (MNCs) have established more than 320 advanced R&D facilities throughout the country to take advantage of Israeli innovation. The list includes the likes of: Google, Apple, Facebook, Microsoft, Intel, Yahoo!, Motorola, HP, Siemens, GE, GM, IBM and Cisco.
- A number of high-profile exits in recent years – Waze (sold to Google for $13 billion), Mobileye (sold to Intel for $15.3bn), SodaStream (sold to PepsiCo for $3.4bn), etc.
- Knowledge based economy with highest concentration of PhD's, engineers & patents filled per capita

Pengana High Conviction Equities

Figure 35 – Pengana High Conviction Equities Team

James McDonald	Portfolio Manager
Jeremy Bendeich	Portfolio Manager

Source: Company reports, MST Access

The High Conviction Equities Fund invests in a concentrated, ethically screened portfolio of not more than 20 Australian and global companies. The Fund's broad asset allocation ranges provide the flexibility to respond to changing markets. The Fund seeks to identify companies that are significantly undervalued using fundamental analysis.

Five characteristics of stocks held in the High Conviction Equities Fund:

- Strong competitive position.
- Significant discount to fair value.
- Under researched. Out of favour. Hidden value.
- Cashflow generation OR strong balance sheets.
- Quality of management. Aligned incentive structure.

Pengana High Conviction Property

Figure 36 – Pengana High Conviction Property Team

Amy Pham	Portfolio Manager & Investment Analyst
Jade Ong	Investment Specialist
Sam Craig	Investment Specialist

Source: Company reports, MST Access

The Pengana High Conviction Property is Australia's only high conviction AREIT fund with an ESG focus. The Pengana High Conviction Property Securities Fund believes each security has an underlying or intrinsic value and that securities become mispriced at times relative to their value and each other, and seeks to exploit such market inefficiencies by employing an active, value-based investment style to capture the underlying cashflows generated from real estate assets and/or real estate businesses. We believe that responsible investing is important to generate long-term sustainable returns. Incorporating ESG factors alongside financial measures provides a complete view of the risk/return characteristics of our property investments. All positions are high conviction and assessed on a risk-reward basis, resulting in a concentrated portfolio of 10-20 securities.

The fund is focused on:

- **Capital Security:** Transparent NTA valuations are easily verified
- **Income Yield:** A-REITs have reliable income derived from assets with long term leases
- **Sustainable Growth:** Rental growth indexed to CPI. A concentrated portfolio enables investment in best-positioned assets and sectors at any point in time
- **Liquidity:** Daily priced A-REITs with market capitalisation > $50m

- **Sound ESG:** A-REITs rank highly on National Australian Built Environment Rating System (NABERS) initiatives. The Fund only invests in proven management teams that have demonstrated good corporate governance

Figure 37 – Pengana High Conviction Property stock selection and portfolio management process

Source: Company reports, MST Access

Risks and sensitivities

Strategic

Pengana Capital Group is subject to a significant number of regulatory requirements, and could suffer from adverse changes to the requirements, including in Australia:

- Anti-money laundering and counter terrorist financing requirements administered by Austrac;
- Privacy requirements administered by the Privacy Commissioner;
- Financial Service licencing and Credit licencing administered by the Australian Securities and Investments Commission (ASIC);
- Australian Consumer Law and unfair contract terms contained in the Corporations Act administered by the Australian Competition and Consumer Commission (ACCC);
- Taxation legislation administered by the Australian Taxation Office (ATO);
- Accounting standards required under the Corporations Act administered by the Australian Accounting Standards Board (AASB) and ASIC;
- Design and distribution obligations, several of which will be governed by contract law

Similar requirements apply in other jurisdictions which Pengana Capital Group and its joint venture partners operate (such as Israel and the US) or potential future markets.

Pengana Capital Group operates in a competitive environment where performance can vary and new or rival offerings emerge periodically. Sometimes consolidation of fund managers occurs, such as Pengana's own merger with Hunter Hall several years ago. These risks present to investors in the form of both strategic M&A risks and general market risks.

Combined, these market dynamics create dynamic brand strategy risks (as well as the operational equivalent of this risk, marketing execution).

Financial

Being a fund manager, Pengana Capital Group has a range of risks and sensitivities applicable to most companies in the financial sector. These include:

- **Investment performance –** investors seek out funds with a strong performance history, so fund performance tends to be a reasonable indicator of future flows. Furthermore, with many of Pengana's funds featuring performance fees, weak investment performance will also impact Pengana's performance fee earnings, and hence its profitability.
- **Macroeconomic conditions** – many of the following risks vary through the economic cycle. Loose monetary conditions, such as those currently being experienced, supress many of these risks which can them emerge suddenly as macroeconomic policy tightens, and conditions deteriorate. Economic stimulus to counter COVID-19 has led to a strong market recovery following the aggressive market sell-off at the start of the pandemic. Where funds are optimised for a particular investment style, macroeconomic conditions can have a significant impact on the relative performance of that style compared to other investment styles.
- **Fraud** – Despite strong internal controls, fund managers can be defrauded by customers, staff or third parties, where a weakness in these controls exists.
- **Compliance risks** – There are many regulations that companies in the finance sector need to follow, outlined above in strategic risks, including anti-money laundering and counter terrorist financing know your customer requirements, where failure to comply with the regulatory requirements can lead to material financial penalties or litigation.

Operational

Most companies, including Pengana Capital Group, have a range of operational risks. These include:

- **Governance** – Increasingly an investment focus as part of ESG, governance risks include all matters of agency costs within the business, including delegated responsibilities and authorisations, internal controls and how conflicts of interest are addressed.
- **Key personnel** – Pengana Capital Group's ability to scale its business assumes availability of suitably qualified staff and a reliance on key personnel. This is particularly relevant for fund managers, where portfolio managers carry significant key personnel risk. Pengana's house of funds approach, and strong incentive alignment with portfolio managers are examples of the methods employed to manage this risk.
- **Information technology** - Should Pengana Capital Group's key technology infrastructure become corrupted such as from hardware failure or malware it would be highly disruptive to Pengana Capital Group's operations. Furthermore IT hardware and software becomes obsolete after a few years and requires capital investments to be updated, otherwise the company is at high risk of becoming inefficient and being superseded by its competitors.
- **Cybersecurity and data protection** – Like any other business providing ongoing services to customers, Pengana Capital Group collects a substantial amount of customer data that is classified as personal information and thus obtains certain confidentiality protections under the Privacy Act. Human or system errors exposing this data could breach these confidentiality requirements, and could expose Pengana Capital Group to penalties. Similarly, Pengana Capital Group is reliant on its IT systems for market data and trading. A cyberattack could disable these systems, leading to significant underperformance – and creating substantial damage to the firm's reputation.
- **Force majeure events** – Events such as system failures, disruptions to utilities, natural perils (both environmental and human health) and warlike hostilities which prevent Pengana Capital Group from operating have a severe impact on its overall business, which grows exponentially the longer the system failure lasts for. Such events may lead to managers to close funds, which create substantial damage to the fund's reputation and typically lead to declining AuM.
- **Litigation, claims and disputes** - Like any business, Pengana Capital Group could be subject to disputes and claims, which may end up being litigated, as well as litigation brought by regulators or class action funders. Such disputes tend to be expensive to resolve, can also result in substantial brand damage, and usually follow the realisation of another risk event. Catalysts can be contractual disputes, intellectual property infringement claims, employment disputes or indemnity claims.

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