INTERIM
REPORT

PENGANA CAPITAL GROUP LIMITED

ABN 43 059 300 426

31 December
2019

PENGANA CAPITAL GROUP
HEAD OFFICE

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CORPORATE **DIRECTORY**

Directors	Warwick Negus - Non-Executive Chairman Russel Pillemer - Managing Director and Chief Executive Officer Jeremy Dunkel - Non-Executive Director Kevin Eley - Non-Executive Director David Groves - Non-Executive Director
Company secretary	Paula Ferrao
Registered office	Level 12, 167 Macquarie Street Sydney NSW 2000 Tel: +61 2 8524 9900
Share register	Computershare Investor Services Pty Limited Level 3, 60 Carrington Street Sydney NSW 2000 Tel: 1300 787 272
Auditor	Grant Thornton Audit Pty Ltd Level 17, 383 Kent Street Sydney NSW 2000
Stock exchange listing	Pengana Capital Group Limited shares are listed on the Australian Securities Exchange (ASX: PCG)
Website	www.pengana.com
Corporate Governance Statement	The Corporate Governance Statement, which was approved at the same time as the Annual Report, can be found at www.pengana.com

LETTER FROM THE CEO

Dear fellow Pengana shareholder,

I am pleased to present the results for the six months ending 31 December 2019 for Pengana Capital Group Limited ("Pengana", ASX: PCG). Highlights for the period include:

- Underlying profit before tax of $7.9 million
- Underlying earnings per share of 5.28 cents per share[i]
- Statutory profit after tax of $3.3 million
- Interim dividend of 4 cents per share, 50% franked at 27.5%

Underlying Profit after tax of $7.9 million was up from $5.6 million in the previous comparable period.

Revenues for the six months were $2.3million higher than in the previous corresponding period, due to an increase in performance fees which at $5.5 million were substantial, however still lower than our historical averages.

Management fees were flat compared to the previous corresponding period, as a result of a reduction in Funds under Management ("FUM") offset by an expansion in fee margin.

The reduction in FUM from $3,271 million as at 30 June 2019 to $3,078 million was exacerbated by uncharacteristically high distribution payments of $115 million.

The bull market that we are experiencing has favoured momentum investors, with well diversified active managers having struggled to outperform indices that have run hard and fast, often driven by one single sector. We anticipate that as markets return to normalised levels our equity funds will attract substantial new net inflows and performance fees will trend back to historical levels.

Period to 31 December 2019	$'000
Management fee revenue	19,412
Performance fee revenue	5,477
Net fund direct expenses	(1,787)
Operating expenses	(8,171)
Team profit share	(8,594)
Operating EBITDA[ii]	**6,337**
Interest and investment income distributions	449
Financing costs	(136)
Interest on loan funded share plan	1,201
Underlying profit before tax[iii]	**7,851**
Basic earnings per share on underlying profit after normalised tax at 27.5% – cents per share [iv]	5.28

We are particularly pleased that in the current environment, our key strategies have kept up with their relevant benchmarks. We have a long track record of achieving our aim, which is to generate superior long term returns with focus on capital preservation. This is illustrated by the following table which summarises the performance since inception (after all fees) of our key strategies relative to the equity index benchmarks.

Fund	Strategy	Performance since inception[v]	Out-performance of benchmark since inception
Pengana Australian Equities Fund [vi]	Australian Multi-caps	10.1%	3.5%
Pengana Emerging Companies Fund [vii]	Australian Small-caps	13.3%	8.2%
Pengana International Fund [viii]	Global Multi-caps	10.6%	-0.3%
Pengana International Equities Ltd (LIC) [ix]	Global Multi-caps	8.1%	0.3%
Pengana Global Small Companies Fund [x]	Global Small-caps	8.7%	-0.3%
Pengana High Conviction Equities Fund [xi]	High Conviction	36.5%	24.5%
Pengana WHEB Sustainable Impact Fund [xii]	Global Impact Investing	6.1%	-0.4%

Our balance sheet is strong. At 31 December 2019 our Underlying Net Tangible Assets[xiii] were $56 million, or 51.7 cents per share. As at 31 December 2019 Pengana had $22 million of net liquid assets in excess of our regulatory requirements of $6.2 million.

As at 31 December 2019	($'000)
Cash net of AFSL cash requirements	10,960
Current receivables	9,049
Current liabilities	-10,348
Net working capital	**9,661**
Investments net of AFSL liquid asset requirements	10,677
AFSL capital requirements	6,200
Loans (on and off-balance sheet)	32,852
Other assets	1,989
Borrowings	-4,375
Other non-current liabilities	-1,099
Total non-current assets and liabilities	**46,244**
Net Tangible Assets[xiv]	**55,905**
Less: Off balance sheet Loan Funded Share Plan	-31,960
Add: Intangibles	64,183
Add: Deferred tax	-5,600
Add: Right of use assets and lease liabilities	-14
Net Assets as per 31 December 2019 Financial Statements[xv]	**82,514**

In January 2020 we completed the acquisition of a significant stake in Lizard Investors LLC ("Lizard"), a Chicago-based asset management firm that specialises in global small to mid-cap equities. Lizard founder and Chairman, Leah Zell, is considered to be one of the foremost global small cap fund managers in the US and a pioneer in global small cap investing. Pengana will inject working capital into Lizard in order to grow and diversify the business, as well as provide Lizard with supporting services.

The Board announced in June 2019 its intention to buy back up to 10% of the Company's issued capital over a period of twelve months. The buyback commenced on 29 August 2019 and since that date, 986,784 shares have been bought back, at an average price of $1.78. The buyback is not a price setting mechanism rather it enables the company to acquire shares at price at which we believe will benefit those shareholders that remain invested in the company.

We are pleased to announce that the Board today declared an interim dividend of 4 cents per share, 50% franked at 27.5%. The record date for the dividend is 5 March 2020 and the dividend will be paid on 19 March 2020.

OUTLOOK

During the period we continued to build out and strengthen our distribution and marketing team. Today we have a broader geographic reach than we had before, having increased the capacity and the calibre of the team.

The key focus for the second half of the year is on our international equities strategies, which, with continued performance, should attract further support from platforms and key advisory groups.

In October 2019 we announced our intention to offer additional units in the Pengana Private Equity Trust ("PE1") and on 11 February 2020 we lodged with ASIC the Product Disclosure Statement ("PDS") for the Secondary Offer in PE1 ("the Offer").

The Offer opened on Monday 24 February 2020 and predominantly consists of an entitlement offer to existing PE1 Unitholders who will have the right to subscribe for an additional 2 new Units for every 1 Unit held, as well as a smaller additional offer under the Trust's placement capacity, giving us the ability to raise a total of up to $473.2 million for the Trust.

PCG will pay for all the costs of the offer, including the cost of the Loyalty Benefit Program, which will issue additional units in PE1 to any PE1 investor who hold PE1 units as at the closing date of the Discretionary Offer ("Loyalty Unitholders") subject to certain conditions.[xvi] The number of Loyalty Units to be issued pro rata to Loyalty Unitholders will be 1% per $100m raised under the Offer.

The proposed Loyalty Benefit Program is a unique innovation by PCG, aligning the interests of the Company with that of our investors and reflecting the high value that we place on the loyalty of our supporters. To our knowledge, this is the first time ever that existing investors in a vehicle will benefit in this manner from an additional capital raising.

The additional raising in PE1 has the potential to be significantly accretive for PCG shareholders who are also able to participate via the Trust offer website.

Thank you for your continued support. I look forward to meeting many of you in the upcoming months.

Yours sincerely,

Russel Pillemer
Chief Executive Officer

[i] After normalised tax at 27.5%
ii Source: Pengana Management Accounts
[iii] Source: Pengana Management Accounts
[iv] Calculated on 107,888,236 shares i.e. including treasury shares
[v] Compound annual returns. Net performance figures are shown after all fees and expenses, and assume reinvestment of distributions. Past performance is not a reliable indicator of future performance. The value of the investment can go up or down.
[vi] Australian Equity Fund: benchmark shown is the S&P/ASX All Ords Index; performance fee benchmark is the RBA cash rate which has returned 3.9% SI. Inception date: 1 July 2008.
[vii] Emerging Companies Fund: benchmark is the S&P/ASX Small Ordinaries Index. Inception date: 1 November 2004.
[viii] International Fund: benchmark is the MSCI All Country World Net Unhedged in AUD. Inception date: 1 July 2015.
[ix] International Equities Limited: benchmark is the MSCI World Total Return Index, Net Dividends Reinvested, in A$. Inception date: 19 March 2004.
[x] Global Small Companies Fund: benchmark is the MSCI All Country World SMID Cap Net Unhedged in AUD. Inception date: 1 April 2015.
[xi] High Conviction Fund: benchmark shown is the S&P/ASX All Ordinaries Index; performance fee benchmark is the RBA Cash Rate + 3% p.a. Inception date: 11 December 2014.
[xii] The Fund incepted on 31 October 2007 as the Hunter Hall Global Deep Green Trust. The Fund was relaunched on 1 August 2017 as the Pengana WHEB Sustainable Impact Fund employing the WHEB Listed Equity strategy. This strategy was first employed on 1 January 2006 by the Henderson Industries of the Future Fund and currently by the FP WHEB Sustainability Fund. From August 2017, performance figures are those of the Pengana WHEB Sustainable Impact Fund's class A units (net of fees and including reinvestment of distributions). The strategy's AUD performance between January 2006 and July 2017 has been simulated by Pengana from the monthly net GBP returns of the Henderson Industries of the Future Fund (from 1 January 2006 to 31 December 2011) and the FP WHEB Sustainability Fund (from 30 April 2012 to 31 July 2017). This was done by: 1) converting the GBP denominated net returns to AUD using FactSet's month-end FX rates (London 4PM); 2) adding back the relevant fund's monthly ongoing charge figure; then 3) deducting the Pengana WHEB Sustainable Impact Fund's management fee of 1.35% p.a. The WHEB Listed Equity strategy did not operate between 1 January 2012 and 29 April 2012 – during this period returns are nulled. The Henderson Industries of the Future Fund's and the FP WHEB Sustainability Fund's GBP net track record data is historical.
[xiii] Net Assets as per the 31 December 2019 Interim Report of $82.5 million, adding off balance sheet employee loans of $31.96 million, subtracting intangibles of $64.2 million and adding deferred tax of $5.6 million, calculated on 108,031,590 shares on issue as at 31 December 2019 i.e. including treasury shares
[xiv] Source: Pengana Management Accounts
[xv] As per Pengana Capital Group Limited 31 December Financial Statements
[xvi] The Loyalty Benefit Program will be available to investors who hold PE1 units as at the closing date of the Secondary Offer ("Eligible Investors"), regardless of whether they participate in the Secondary Offer. Under the proposed Loyalty Benefit Program, if an Eligible Investor retains their pre-Secondary Offer unitholding for four months after the closing date of the Secondary Offer, then the Eligible Investor will receive additional PE1 units that are fully paid up by PCG ("Loyalty Units").

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'group') consisting of Pengana Capital Group Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the half-year ended 31 December 2019.

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

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

Principal activities
The principal activity of the group is funds management with the objective of offering investment funds to high net worth and retail investors in Australia and New Zealand.

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

	Consolidated	
	31 Dec 2019 $'000	31 Dec 2018 $'000
On 28 August 2018, a fully franked final dividend of 6.5 cents per ordinary share was declared for the year ended 30 June 2018 and paid on 28 September 2018 to the shareholders registered on 14 September 2018	-	5,188

On 25 February 2020, the directors declared an interim dividend for the half-year ended 31 December 2019 of 4 cents per ordinary shares. The dividends are 50% franked to be paid on 19 March 2020 to eligible shareholders on the register on 5 March 2020.

Review of operations
The profit for the group after providing for income tax and non-controlling interest amounted to $3,257,000 (31 December 2018: $935,000).

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

Matters subsequent to the end of the financial half-year
In January 2020, the group acquired a 66.67% stake in Lizard Investors LLC ('Lizard'), a Chicago-based asset management firm that specialises in global to mid-cap equities, which was founded in 2008 by Leah Zell, one of the foremost global small cap fund managers in the United States of America and a pioneer in global small cap investing. The acquisition builds on an existing joint venture entered in 2015 between the group and Lizard whereby Lizard provides sub-advisory services to the Pengana Global Small Companies Fund. As at 31 December 2019 Lizard had funds under management totalling $531 million (USD 372 million).

Apart from the dividend declared as discussed above, no other matter or circumstance has arisen since 31 December 2019 that has significantly affected, or may significantly affect the group's operations, the results of those operations, or the group's state of affairs in future financial years.

Share buy-back
During the half year, the company bought back 986,794 shares at a cost of $1,761,000. The buy-back program expires on 27 June 2020 and allows a maximum of 10,161,444 shares to be bought back.

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

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

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

On behalf of the directors

Russel Pillemer
Chief Executive Officer

25 February 2020
Sydney

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Auditor's Independence Declaration

To the Directors of Pengana Capital Group Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the review of Pengana Capital Group Limited for the half-year ended 31 December 2019, I declare that, to the best of my knowledge and belief, there have been:

a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review; and

b no contraventions of any applicable code of professional conduct in relation to the review.

Grant Thornton Audit Pty Ltd
Chartered Accountants

M A Adam-Smith
Partner – Audit & Assurance

Sydney, 25 February 2020

Pengana Capital Group Limited
Statement of profit or loss
For the half-year ended 31 December 2019

	Note	Consolidated 31 Dec 2019 $'000	Consolidated 31 Dec 2018 $'000
Revenue			
Management fees		19,177	19,477
Performance fees		5,551	3,199
Other fee revenue		668	366
Total revenue	3	25,396	23,042
Share of profits/(losses) of associates accounted for using the equity method		64	(83)
Interest revenue calculated using the effective interest method		80	83
Other income and gains	4	479	472
Total revenue and income		26,019	23,514
Expenses			
Human resources expenses		(6,125)	(7,099)
Fund manager profit share expense		(8,594)	(7,548)
Fund operating expenses		(2,111)	(2,137)
Occupancy expenses		(46)	(529)
Impairment of other receivables		-	(400)
Technology and communications expenses		(457)	(441)
Marketing and investment research expenses		(689)	(764)
Insurance expenses		(346)	(253)
Professional, registry and listing related expenses		(319)	(995)
Acquisition and restructuring costs		(2)	(139)
Depreciation and amortisation expenses		(1,687)	(1,268)
Other operating expenses		(296)	(224)
Finance costs		(157)	-
Cost of establishing new products		(277)	-
Total expenses		(21,106)	(21,797)
Profit before income tax expense		4,913	1,717
Income tax expense		(1,656)	(778)
Profit after income tax expense for the half-year		3,257	939
Profit for the half-year is attributable to:			
Non-controlling interest		-	4
Owners of Pengana Capital Group Limited		3,257	935
		3,257	939
		Cents	**Cents**
Basic earnings per share	13	3.86	1.18
Diluted earnings per share	13	3.74	1.07

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

Pengana Capital Group Limited
Statement of other comprehensive income
For the half-year ended 31 December 2019

	Consolidated	
	31 Dec 2019 $'000	31 Dec 2018 $'000
Profit after income tax expense for the half-year	3,257	939
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss		
Gain or loss on the revaluation of equity instruments at fair value through other comprehensive net of tax	385	(522)
Reclassify gain or loss on disposal of equity instruments net of tax to retained earnings	49	-
Other comprehensive income for the half-year, net of tax	434	(522)
Total comprehensive income for the half-year	3,691	417
Total comprehensive income for the half-year is attributable to:		
Non-controlling interest	-	4
Owners of Pengana Capital Group Limited	3,691	413
	3,691	417

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

Pengana Capital Group Limited
Statement of financial position
As at 31 December 2019

	Note	Consolidated 31 Dec 2019 $'000	Consolidated 30 Jun 2019 $'000
Assets			
Current assets			
Cash and cash equivalents		14,060	14,446
Trade and other receivables		290	442
Contract assets - accrued management and performance fees		8,759	4,747
Other current assets		1,773	1,072
Total current assets		24,882	20,707
Non-current assets			
Other receivables		925	1,349
Prepayments		135	153
Property, plant and equipment		252	263
Right-of-use assets	5	781	-
Investments accounted using the equity method		4,237	4,275
Equity investment in financial assets at fair value through other comprehensive income	6	9,541	8,988
Intangibles	7	64,184	65,455
Total non-current assets		80,055	80,483
Total assets		104,937	101,190
Liabilities			
Current liabilities			
Trade and other payables	8	9,445	7,657
Contract liabilities		29	-
Employee benefits		982	992
Bank loan		1,250	1,250
Lease liabilities		526	-
Income tax liability		1,079	1,182
Total current liabilities		13,311	11,081
Non-current liabilities			
Employee benefits		116	93
Other		-	57
Bank loan		3,125	3,750
Lease liabilities		269	-
Deferred tax		5,600	5,766
Total non-current liabilities		9,110	9,666
Total liabilities		22,421	20,747
Net assets		82,516	80,443
Equity			
Contributed equity	9	99,716	101,477
Reserves	10	29,932	29,263
Accumulated losses		(47,132)	(50,340)
Equity attributable to the owners of Pengana Capital Group Limited		82,516	80,400
Non-controlling interest		-	43
Total equity		82,516	80,443

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

Pengana Capital Group Limited
Statement of changes in equity
For the half-year ended 31 December 2019

Consolidated	Contributed equity $'000	Reserves $'000	Accumulated losses $'000	Non-controlling interest $'000	Total equity $'000
Balance at 1 July 2018	87,914	29,445	(27,664)	33	89,728
Profit after income tax expense for the half-year	-	-	935	4	939
Other comprehensive income for the half-year, net of tax	-	(522)	-	-	(522)
Total comprehensive income for the half-year	-	(522)	935	4	417
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs	3,303	-	-	-	3,303
Share-based payments	-	212	-	-	212
Dividends paid (note 11)	-	-	(5,188)	-	(5,188)
Balance at 31 December 2018	91,217	29,135	(31,917)	37	88,472

Consolidated	Contributed equity $'000	Reserves $'000	Accumulated losses $'000	Non-controlling interest $'000	Total equity $'000
Balance at 1 July 2019	101,477	29,263	(50,340)	43	80,443
Profit after income tax expense for the half-year	-	-	3,257	-	3,257
Other comprehensive income for the half-year, net of tax	-	434	-	-	434
Total comprehensive income for the half-year	-	434	3,257	-	3,691
Transactions with owners in their capacity as owners:					
Share-based payments	-	235	-	-	235
Share buy-back (note 9)	(1,761)	-	-	-	(1,761)
Reclassify gain or loss on disposal of equity instruments net of tax to retained earnings	-	-	(49)	-	(49)
Acquisition of non-controlling interest	-	-	-	(43)	(43)
Balance at 31 December 2019	99,716	29,932	(47,132)	-	82,516

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

Pengana Capital Group Limited
Statement of cash flows
For the half-year ended 31 December 2019

	Consolidated	
	31 Dec 2019 $'000	**31 Dec 2018 $'000**
Cash flows from operating activities		
Receipts from customers (inclusive of GST)	23,687	23,191
Payments to suppliers, customers and employees (inclusive of GST)	(19,590)	(22,021)
	4,097	1,170
Dividends received	388	237
Interest received	62	57
Other revenue	147	140
Finance costs	(157)	-
Income taxes paid	(2,135)	(966)
Net cash from operating activities	2,402	638
Cash flows from investing activities		
Payments for property, plant and equipment	(58)	(65)
Proceeds from disposal of investments in associates	-	1,394
Proceeds from security deposits	1	-
Payments for security deposits	(5)	-
Net cash from/(used in) investing activities	(62)	1,329
Cash flows from financing activities		
Repayment of borrowings	(625)	-
Repayment of lease liabilities	(340)	-
Payments for share buy-backs	(1,761)	-
Dividends paid to company shareholders, net of treasury shares reinvested	-	(5,188)
Net cash used in financing activities	(2,726)	(5,188)
Net decrease in cash and cash equivalents	(386)	(3,221)
Cash and cash equivalents at the beginning of the financial half-year	14,446	16,070
Effects of exchange rate changes on cash and cash equivalents	-	(24)
Cash and cash equivalents at the end of the financial half-year	14,060	12,825

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

Note 1. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 31 December 2019 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2019 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

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

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

New or amended Accounting Standards and Interpretations adopted

The group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

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

The following Accounting Standards and Interpretations adopted during the year are most relevant to the group:

AASB 16 Leases

The group has adopted AASB 16 from 1 July 2019. The standard replaces AASB 117 'Leases' and for lessees eliminates the classifications of operating leases and finance leases. Except for short-term leases and leases of low-value assets, right-of-use assets and corresponding lease liabilities are recognised in the statement of financial position. Straight-line operating lease expense recognition is replaced with a depreciation charge for the right-of-use assets (included in operating costs) and an interest expense on the recognised lease liabilities (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results improve as the operating expense is now replaced by interest expense and depreciation in profit or loss. For classification within the statement of cash flows, the interest portion is disclosed in operating activities and the principal portion of the lease payments are separately disclosed in financing activities. For lessor accounting, the standard does not substantially change how a lessor accounts for leases.

Impact of adoption

AASB 16 was adopted using the modified retrospective approach and as such the comparatives have not been restated. The impact of adoption on opening retained profits as at 1 July 2019 was as follows:

	1 July 2019 $'000
Operating lease commitments as at 1 July 2019 (AASB 117)	1,196
Operating lease commitments discount based on the weighted average incremental borrowing rate of 5.25% (AASB 16)	(61)
Right-of-use assets (AASB 16)	1,135
Lease liabilities - current (AASB 16)	(691)
Lease liabilities - non-current (AASB 16)	(444)
Impact on opening retained profits as at 1 July 2019	-

Note 1. Significant accounting policies (continued)

Right-of-use assets
A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the group expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

Lease liabilities
A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the group's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

Note 2. Operating segments

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

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

Based on the internal reports that are used by the CODM the group has one operating segment being the provision of funds management services with the objective of offering investment funds to high net worth and retail investors in Australia and New Zealand and offshore investors globally. There is no aggregation of operating segments.

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

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

Note 3. Revenue

Disaggregation of revenue
The disaggregation of revenue from contracts with customers is as follows:

	Consolidated	
	31 Dec 2019 $'000	31 Dec 2018 $'000
Timing of revenue recognition		
Services transferred over time - management and other fee revenue	19,845	19,843
Services transferred at a point in time - performance fees	5,551	3,199
	25,396	23,042

Disaggregation of revenue based on major service line is shown on the face of statement of profit or loss. The revenue from contracts with customers is substantially all in Australia.

Note 4. Other income and gains

	Consolidated	
	31 Dec 2019 $'000	31 Dec 2018 $'000
Dividends and distributions	286	237
Rental income	147	140
Other income	46	95
	479	472

Note 5. Non-current assets - right-of-use assets

	Consolidated	
	31 Dec 2019 $'000	30 Jun 2019 $'000
Right-of-use assets	1,135	-
Less: Accumulated depreciation	(354)	-
	781	-

The group leases office premises and office equipment (e.g. photocopier) under agreements expiring between one to three years with, in some cases, options to extend. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated.

The group leases office equipment under agreements of less than one year. These leases are either short-term or low-value, so have been expensed as incurred and not capitalised as right-of-use assets.

Note 5. Non-current assets - right-of-use assets (continued)

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

Consolidated	Office premises $'000	Others $'000	Total $'000
Balance at 1 July 2019	-	-	-
Adoption of AASB 16 on 1 July 2019 (refer note 1)	1,063	72	1,135
Depreciation expense	(328)	(26)	(354)
Balance at 31 December 2019	735	46	781

Note 6. Non-current assets - Equity investment in financial assets at fair value through other comprehensive income

	Consolidated	
	31 Dec 2019 $'000	**30 Jun 2019 $'000**
Investments in listed equity securities	7,808	7,255
Investment in unlisted managed investment funds	1,733	1,733
	9,541	8,988

Refer to note 12 for further information on fair value measurement.

Note 7. Non-current assets - intangibles

	Consolidated	
	31 Dec 2019 $'000	**30 Jun 2019 $'000**
Goodwill - at cost	43,612	43,612
Acquired relationships - at cost	26,520	26,520
Less: Accumulated amortisation	(6,214)	(5,011)
	20,306	21,509
Other intangible assets - at cost	452	452
Less: Accumulated amortisation	(186)	(118)
	266	334
	64,184	65,455

Note 7. Non-current assets - intangibles (continued)

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

Consolidated	Goodwill $'000	Acquired relationships $'000	Other intangible assets $'000	Total $'000
Balance at 1 July 2019	43,612	21,509	334	65,455
Amortisation expense	-	(1,203)	(68)	(1,271)
Balance at 31 December 2019	43,612	20,306	266	64,184

Note 8. Current liabilities - trade and other payables

	Consolidated	
	31 Dec 2019 $'000	**30 Jun 2019 $'000**
Trade payables	-	56
Accrued expenses	2,540	2,531
Fund manager profit share	6,658	4,645
Other payables	247	425
	9,445	7,657

Note 9. Equity - contributed equity

	Consolidated			
	31 Dec 2019 Shares	**30 Jun 2019 Shares**	**31 Dec 2019 $'000**	**30 Jun 2019 $'000**
Ordinary shares - fully paid	103,122,362	103,277,160	120,008	120,437
Preference shares - fully paid	4,909,228	4,909,228	10,260	10,260
Less: Treasury shares	(24,290,716)	(23,458,720)	(30,552)	(29,220)
	83,740,874	84,727,668	99,716	101,477

Movements in ordinary share capital

Details	**Date**	**Shares**	**$'000**
Balance	1 July 2019	103,277,160	120,437
Share buy-back	August 2019	(22,656)	(39)
Share buy-back	September 2019	(131,323)	(218)
Share buy-back	October 2019	(369,263)	(677)
Share buy-back	November 2019	(463,552)	(827)
Issue of shares under the Pengana Capital Group Loan Share Plan	20 December 2019	831,996	1,332
Balance	31 December 2019	103,122,362	120,008

Note 9. Equity - contributed equity (continued)

Movements in treasury shares

Details	Date	Shares	$'000
Balance	1 July 2019	(23,458,720)	(29,220)
Issue of shares under the Pengana Capital Group Loan Share Plan	20 December 2019	(831,996)	(1,332)
Balance	31 December 2019	(24,290,716)	(30,552)

Share buy-back
During the half year, the company bought back 986,794 shares at a cost of $1,761,000. The buy-back program expires on 27 June 2020 and allows a maximum of 10,161,444 shares to be bought back.

Note 10. Equity - reserves

	Consolidated	
	31 Dec 2019 $'000	30 Jun 2019 $'000
Profits reserve	23,867	23,867
Share-based payments reserve	6,030	5,795
Financial assets at fair value through other comprehensive income ('OCI') reserve	35	(399)
	29,932	29,263

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

Consolidated	Profits reserve $'000	Share-based payments reserve $'000	Financial assets at fair value through OCI reserve $'000	Total $'000
Balance at 1 July 2019	23,867	5,795	(399)	29,263
Revaluation, net of tax	-	-	385	385
Reclassify gain or loss on disposal of equity instruments net of tax to retained earnings	-	-	49	49
Share-based payments	-	235	-	235
Balance at 31 December 2019	23,867	6,030	35	29,932

Note 11. Equity - dividends

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

	Consolidated	
	31 Dec 2019 $'000	**31 Dec 2018 $'000**
On 28 August 2018, a fully franked final dividend of 6.5 cents per ordinary share was declared for the year ended 30 June 2018 and paid on 28 September 2018 to the shareholders registered on 14 September 2018	-	5,188

On 25 February 2020, the directors declared an interim dividend for the half-year ended 31 December 2019 of 4 cents per ordinary shares. The dividends are 50% franked to be paid on 19 March 2020 to eligible shareholders on the register on 5 March 2020.

Note 12. Fair value measurement

Fair value hierarchy
The following tables detail the group's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:
Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date
Level 2: Observable market data used in valuation techniques to determine the fair value. Level 2 instruments are not traded in an active market
Level 3: Unobservable inputs for the asset or liability

Consolidated - 31 Dec 2019	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Investment in financial assets at fair value through other comprehensive income	7,808	1,733	-	9,541
Total assets	7,808	1,733	-	9,541

Consolidated - 30 Jun 2019	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Investment in financial assets at fair value through other comprehensive income	7,255	1,733	-	8,988
Total assets	7,255	1,733	-	8,988

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

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

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

Note 13. Earnings per share

	Consolidated	
	31 Dec 2019 **$'000**	**31 Dec 2018** **$'000**
Profit after income tax	3,257	939
Non-controlling interest	-	(4)
Profit after income tax attributable to the owners of Pengana Capital Group Limited	3,257	935
	Number	**Number**
Weighted average number of ordinary shares used in calculating basic earnings per share	84,379,505	79,545,938
Adjustments for calculation of diluted earnings per share:		
Dilutive impact of treasury shares accounted for as options	2,789,423	8,041,626
Weighted average number of ordinary shares used in calculating diluted earnings per share	87,168,928	87,587,564
	Cents	**Cents**
Basic earnings per share	3.86	1.18
Diluted earnings per share	3.74	1.07

The weighted average number of ordinary shares to calculate basic earnings per share excludes 24,290,716 (31 December 2018: 23,458,720) treasury shares.

Note 14. Events after the reporting period

In January 2020, the group acquired a 66.67% stake in Lizard Investors LLC ('Lizard'), a Chicago-based asset management firm that specialises in global to mid-cap equities, which was founded in 2008 by Leah Zell, one of the foremost global small cap fund managers in the United States of America and a pioneer in global small cap investing. The acquisition builds on an existing joint venture entered in 2015 between the group and Lizard whereby Lizard provides sub-advisory services to the Pengana Global Small Companies Fund. As at 31 December 2019 Lizard had funds under management totalling $531 million (USD 372 million).

Apart from the dividend declared as disclosed in note 11, no other matter or circumstance has arisen since 31 December 2019 that has significantly affected, or may significantly affect the group's operations, the results of those operations, or the group's state of affairs in future financial years.

Note 15. General information

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

Level 12
167 Macquarie Street
Sydney NSW 2000

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

The financial statements were authorised for issue, in accordance with a resolution of directors, on 25 February 2020.

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;

- the attached financial statements and notes give a true and fair view of the group's financial position as at 31 December 2019 and of its performance for the financial half-year ended on that date; and

- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

On behalf of the directors

____
Russel Pillemer
Chief Executive Officer

25 February 2020
Sydney

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Independent Auditor's Review Report

To the Members of Pengana Capital Group Limited

Report on the review of the half year financial report

Conclusion

We have reviewed the accompanying half year financial report of Pengana Capital Group Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half year ended on that date, a description of accounting policies, other selected explanatory notes, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half year financial report of Pengana Capital Group Limited does not give a true and fair view of the financial position of the Group as at 31 December 2019, and of its financial performance and its cash flows for the half year ended on that date, in accordance with the *Corporations Act 2001*, including complying with Accounting Standard AASB 134 *Interim Financial Reporting*.

Directors' responsibility for the half year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2019 and its performance for the half year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Pengana Capital Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001.*

Grant Thornton Audit Pty Ltd
Chartered Accountants

M A Adam-Smith

Partner – Audit & Assurance

Sydney, 25 February 2020

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