



Qualitative Fund Research

Pengana Global Small Companies Fund

November 2017

About the Manager

Pengana Capital Group (the Manager, Pengana) is a diversified funds management business founded in 2003. In 2017 NAB sold its Pengana holdings to Washington H Soul Pattison (ASX code WHSP). Further to this, in 2017, Pengana merged with large ethical managed fund business, Hunter Hall. Hunter Hall's ethical framework has been retained across most of Hunter Hall's investment products. Further information regarding Pengana can be found [here](#).

Pengana's investment products focus on active strategies with non-benchmark mandates. This provides investment teams with the freedom to invest in their best ideas. Pengana's business model provides a centralised corporate support platform so fund managers can focus on what they do best - managing portfolios.

Pengana doesn't have a publicly available corporate governance or citizenship statement, other than the ASX June 2017 ASX Market Announcement that applies directly to Hunter Hall International Ltd (ASX: PCG), available [here](#).

[Pengana](#) offers 15 funds in total, including four [Hunter Hall](#) managed funds. Pengana has engaged with FundSource to produce qualitative research for two Australian Unit Trusts (AUT):

- Pengana International Equities Fund
- [Pengana Global Small Companies Fund](#)
- Pengana Global Small Companies Fund
- Pengana Absolute Return Asia Pacific Fund
- Pengana Australian Equities Fund
- Pengana Emerging Companies Fund
- Pengana International Equities Managed Risk Fund
- Pengana PanAgora Absolute Return Global Equities Fund
- Pengana WHEB Sustainable Impact Fund
- Hunter Hall Australian Value Trust
- Hunter Hall Global Equities Trust
- Hunter Hall High Conviction Equities Trust
- Hunter Hall Value Growth Trust

Pengana has partnered with Lizard Investors LLC (the Investment Manager) for the investment management capability. The global small companies investment team consists of five members, four of the team have security level research functions. Pengana provides all other functions for the AUT, and the funds are distributed in New Zealand by [Heathcote Investment Partners and Craigs Investment Partners](#). Individual bios for the global small companies team can be found [here](#). Pengana's [management team](#) and [Board](#) are detailed on the website.

Using this Fund

This is General Advice only and should be read in conjunction with the Disclaimers, Disclosures and Warnings at the end of this document.

The Pengana Global Small Companies Fund ("the Fund") provides exposure to small and mid-cap global equities. It seeks to identify and invest in quality businesses that create significant value but are mispriced, overlooked and out-of-favour. As such the Fund, will generally sit within the growth assets of a diversified portfolio.

The Fund typically invests in 30 – 80 companies, which is managed to a series of predominantly soft criteria. The Manager expects returns to be driven by security selection and to a small degree macroeconomic factors. FundSource believes small cap funds should be used to complement, rather than replace, large-cap global equity

exposures, as a satellite to the core large cap allocation to international equities. Investors may experience both positive and negative, at times sharp, movements in the value of capital invested. Notably, small-cap companies, due to their nature, tend to be less liquid and more volatile than their large-cap peers. Investors should be mindful of the relative risks of the small cap sector, and position the weight of small-caps in a portfolio according, with respect to the tolerance for risk.

Due to the characteristics of small and mid-cap companies, and potentially concentrated nature of the Fund, investors should have an investment time horizon that is greater than five years, preferably at least seven years.

The Fund is an Australian Unit Trust (AUT) structure, the Fund calculates distributions twice yearly, in June and December.

Question	What the Manager says	What FundSource think																												
<p>What are the Manager's assets under management - in total and in this Fund?</p>	<p>\$A3.2b in total which includes \$30.5m in this fund.</p> <p>As at 31 August 2017:</p> <table border="0"> <tr> <td>International Equities</td> <td style="text-align: right;">\$ 31.4m</td> </tr> <tr> <td>Global Small Companies</td> <td style="text-align: right;">\$ 30.5m</td> </tr> <tr> <td>Absolute Return Asia Pacific</td> <td style="text-align: right;">\$ 31.7m</td> </tr> <tr> <td>Australian Equities</td> <td style="text-align: right;">\$1,363.0m</td> </tr> <tr> <td>Emerging Companies</td> <td style="text-align: right;">\$ 775.0m</td> </tr> <tr> <td>International Equities Managed Risk</td> <td style="text-align: right;">\$ 2.1m</td> </tr> <tr> <td>PanAgora Absolute Return</td> <td style="text-align: right;">\$ 133.0m</td> </tr> <tr> <td>Global Equities Trust</td> <td style="text-align: right;">\$ 70.7m</td> </tr> <tr> <td>WHEB Sustainable Impact</td> <td style="text-align: right;">\$ 3.4m</td> </tr> <tr> <td>Hunter Hall Global Equities Closed to new investors</td> <td style="text-align: right;">\$ 69.4m</td> </tr> <tr> <td>Hunter Hall High Conviction Equities</td> <td style="text-align: right;">\$ 28.1m</td> </tr> <tr> <td>Hunter Hall Value Growth</td> <td style="text-align: right;">\$ 355.6m</td> </tr> <tr> <td>Global Value Ltd (ASX: HHV)</td> <td style="text-align: right;">As per ASX</td> </tr> <tr> <td>TOTAL:</td> <td style="text-align: right;">\$3,200.1m</td> </tr> </table>	International Equities	\$ 31.4m	Global Small Companies	\$ 30.5m	Absolute Return Asia Pacific	\$ 31.7m	Australian Equities	\$1,363.0m	Emerging Companies	\$ 775.0m	International Equities Managed Risk	\$ 2.1m	PanAgora Absolute Return	\$ 133.0m	Global Equities Trust	\$ 70.7m	WHEB Sustainable Impact	\$ 3.4m	Hunter Hall Global Equities Closed to new investors	\$ 69.4m	Hunter Hall High Conviction Equities	\$ 28.1m	Hunter Hall Value Growth	\$ 355.6m	Global Value Ltd (ASX: HHV)	As per ASX	TOTAL:	\$3,200.1m	<p>Penganga Capital and Hunter Hall International announced their merger on 1 June 2017, creating Pengana Capital Group (ASX: PCG). Post the merger, the Manager has a broad range of products available to the market. Post the acquisition of Hunter Hall the Manager has been undertaking a review process, which may lead to some consolidation of funds. The latest information and updates relating to the Pengana suite of funds can be found here, and Hunter Hall funds can be found here.</p> <p>The Fund was launched on 1 April 2015, and is one of two funds managed by the investment team. The Global Small Companies Fund has funds under management (FUM) of \$30.5 million, as at 31 August 2017. Pengana has a cap of US\$500 million available for institutional and retail investors. The relatively low FUM in isolation could be cause for concern. However, the Funds low FUM is mitigated by the Managers total FUM of \$3.2 billion, and the relatively short period in which the Fund has been operating, mitigates corporate risk.</p>
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<p>Who is accountable for managing the Fund, and how long has the investment team worked together?</p>	<p>The CIO and the Portfolio Managers are responsible for managing and overlooking the daily activities on the fund. The investment team has worked together since the inception of the company - reaching 10 years soon</p>	<p>Pengana have entered in to a relationship with Lizard Investors LLC (Lizard or the Investment Manager), a Chicago based fund manager that specialises in international small-mid cap equities. Lizard was founded in 2008</p> <p>The Chief Investment Officer (CIO) Leah Zell, PhD, has a long history (37 years) in small to mid-cap investing and is seen as a pioneer in non-US small cap investing. Zell's investment acumen also extends successfully managing funds management companies. Jon Moog is principally responsible for idea generation, assigning and prioritising stock research, company meetings and running the investment process.</p> <p>Jonathan Moog and David Li are the Funds Co-Portfolio Managers, however, FundSource notes that Moog has the final decision and is therefore ultimately responsible for the Fund. Both Moog and Li joined in 2008, and have solid industry experience. FundSource views Moog as having key responsibility for the investment process. Michael (Mickey) Ryan and Tam Phan are the two analysts. Mickey joined the Manager in 2015 and has four years industry experience, and was the sole analyst in the team. Ryan is considered a junior hire, in a very experienced team. Tam Pham was recently hired as a further analyst. Bios for the investment team are available here.</p> <p>FundSource notes the investment team is small, however based on the number of portfolio positions and low turnover approach to investing, the team is adequately resourced. The investment</p>																												

		<p>team are generalists, however, each member can lean toward regions, countries and sectors of strength, principally gained from previous employers.</p> <p>The small team size and brand being built around three key people introduces significant key person risk. Some changes to Lizard's corporate structure, including Moog and Li as equity holders, have been completed. This can assist in mitigating some key person risk, however in this case, Zell, Moog, or Li's departure is considered a significant event. Investors should ensure this type of risk is in line with their appetite for risk.</p> <p>Moog is also responsible for trading activities together with Williams trading who Lizard outsources execution to, with Zell serving as backup.</p>
<p>What objective is the Manager trying to achieve?</p>	<p>The Fund's investment objective is to obtain returns greater than the MSCI All Country World Index SMID Cap unhedged in Australian dollars ('Index') over rolling 3 year periods after fees.</p>	<p>FundSource notes that the Fund does not provide specific guidance on the quantum of outperformance above the benchmark investors can expect, over the medium to long term. However, based on how the Investment Manager invests, FundSource acknowledges that the reference benchmark is appropriate.</p> <p>The Fund was inceptioned in April 2015, and has a track record of less than three years. The short performance history prevents FundSource from completing meaningful analysis and developing an understanding of how the Investment Manager's skill translates in to the Fund performance. FundSource notes that Lizard has been running a similar strategy since the Manager commenced operations.</p> <p>The Manager reports performance on a net of fees and expenses basis, and assumes reinvestment of distributions, as detailed on the Funds factsheets. Further information is available on the New Zealand Government's Disclose website here.</p>
<p>What does the Manager invest your money into?</p>	<p>The Fund invests principally in small and mid-cap listed (or soon to be listed) global equities.</p>	<p>The Investment Manager employs a value-oriented investment approach to small and mid-cap global equities that seeks to identify and invest in quality businesses that create significant value but are mispriced, overlooked and out-of-favour.</p> <p>The Investment Manager believes that unique opportunities exist due to limited available research, corporate actions, or unfavourable investor perception. Based on this belief the Investment Manager uses a value-oriented investment approach, seeking to identify quality businesses that create significant value but are mispriced, overlooked, or out-of-favour.</p> <p>The core of the Investment Managers process is built around five criteria, durable competitive advantage, management alignment with minority shareholders, strong corporate governance, strong</p>

		<p>balance sheets, and compelling valuations based on long term cash flow generation. Idyllically, all companies will meet all five criteria. This set of guidelines should assist the Manager in remaining true to its logical, common sense approach to investing.</p> <p>FundSource believes this is a pragmatic approach to a discipline, which centres on the research effort. Outside of the five criteria the Investment Manager has freedom to express its ideas in the Fund, including investing in emerging and developed markets, and across all sectors, with companies that have <US\$10 billion market cap, but with a target median market cap for the Fund of less than \$3 billion.</p> <p>There is no requirement for an AUT to publish portfolio holdings in New Zealand, FundSource sees this as a disadvantage compared to registered PIE funds, which must provide portfolio holding disclosure via the Disclose website.</p>
<p>What are the inherent risks imbedded in the Fund?</p>	<p>The significant risks of investing in the Fund are:</p> <p>Individual Investment Risk: The value of the Fund's portfolio may be affected by unexpected changes in the value of the investments in the portfolio. Such changes may be due to unexpected company specific issues that impact the market value of the individual investments.</p> <p>International Investing Risk: The Fund primarily holds investments in global securities listed on approved exchanges. Risks of international investing may include currency fluctuations, foreign tax, different market and settlement practices, adverse political and economic developments, limited liquidity, foreign exchange controls and investment restrictions. Regulatory intervention can also materially affect the Fund's ability to affect its investment strategy and adversely affect the Fund's performance.</p> <p>Currency Risk: The Fund will invest in various countries including Australia. If the currencies of those other countries change in value relative to the Australian dollar, the value of these investments may change and may negatively affect the Fund's return.</p> <p>Small Company Risk: Smaller companies may be less liquid and their values more volatile and harder to ascertain accurately than larger companies. Company disclosure may also be less transparent and their business models may be less diversified and robust to changes in management or operating environment.</p>	<p>Other than the risks stated by the Manager, FundSource views recent team changes, leading to Ryan's appointment in 2015, Phan's appointment in 2017 and recently extending shareholdings to Moog and Li as being good examples of key person risk management. Accordingly, FundSource considers Moog and Li represent significant key person risk, and notes their tenure and recent equity ownership in Lizard are positive, however, the equity has been a long process. FundSource sees this as indicative of the long term thinking of the Investment Manager. FundSource views additional analyst hires, with reasonable industry experience (5+ years) positively. Any loss in existing personnel would be considered a significant negative event.</p> <p>FundSource notes that Zell is the key architect of the current investment process, while Moog is the custodian of the process, ensuring it is implemented across research and portfolio construction functions. The process is viewed as being relatively straight forward, and proven to work, however. FundSource cautions that implementation and execution is where the process comes to life, and determines if the Manager has been successful in adhering to the simple principles of the process. The Fund's history is currently too short to determine how successful the Manager has been in implementing the Fund's process.</p> <p>The Manager also employs a set of hard and soft rules which determine if a company meets its investment criteria. The fund's mandate is monitored on a daily basis to make sure that fund is within the compliance framework and guidelines.</p>
<p>Why does the Manager believe the future prices of the Fund's investments will vary?</p>	<p>We seek to buy the best businesses we can find that we believe will compound</p>	<p>The rules and guidelines that the Manager has put in place play a significant role in</p>

	<p>value over 3-5 years. Performance of the portfolio is generally driven by shorter term market fluctuations. Over a 3 year period, we believe our focus on high quality business and valuation will produce outperformance vs. the broader index.</p>	<p>determining the companies that are invested in or sold.</p> <p>The Manager identifies new opportunities from a series of situations including, under followed or owned companies, price dislocations, corporate restructures and spinoffs, misperceived situations, and market pricing disagreements.</p> <p>Unlike most investment managers, Lizard does not use quantitatively defined investment filters. This is based on their belief it would reduce the productivity of the investment team, and small to mid-cap data is often stale and/or corrupt, more so outside US markets. The Investment Manager's process is designed to capture opportunities that lie in market inefficiencies, and avoid being driven to the same place as other investment managers, to find opportunity.</p> <p>FundSource highlights that this is a significant move away from what is considered 'the norm' in active investing. Notably, the qualitative filter, based around the Investment Manager's five key criteria, effectively reduces the universe down to a more manageable number for a small investment team to work with, in a similar way quantitative filters work.</p> <p>The Investment Manager's process looks to develop conviction in an idea. The process is predominantly bottom up stock selection, however it does consider top down macro sector and country overlays, to a small degree. The investment team looks to invest in companies that will generate more cash than what was paid to own that company. Cash flow consistency and growth are fundamental to the Funds investment approach.</p>
<p>Why does the Manager believe you should give them your money rather than to someone else or to an inexpensive index fund?</p>	<p>We believe we will deliver significant earnings growth over 3 to 5 years to Investors seeking exposure to global small and mid-cap listed equities with an active value oriented investment style focused on identifying high quality businesses.</p>	<p>A small number of reasonably broad hard or predominantly soft rules and guidelines govern the Fund. These are designed to prevent the Investment Manager from introducing too much risk, intended or unintended, to the portfolio.</p> <p>The Investment Manager is unconstrained by markets, investing in both developed and emerging markets, and across small to mid-cap companies. FundSource views the Manager's five criteria as appearing simple, but are complicated in a small to mid-cap universe. Investors should not assume simplicity means easy. Implementing simple processes consistently can often be difficult, and information asymmetry is synonymous in small and mid-cap companies.</p> <p>The Fund has shown promising performance over one year, net of fees and expenses, and assuming distributions have been reinvested. This is available on the Manager's website, and the Funds factsheet. Compared to the 124 funds in the FE Analytics NZMI Equity Global</p>

		<p>sector, the Fund has outperformed the peer group average, which is encouraging, despite its short history. FundSource notes that the Fund's performance history is too short to meaningfully evaluate. Performance data is available via the Disclose website and FundSource.</p>
<p>How does the Manager decide to buy or sell investments?</p>	<p>The Fund's investment manager uses a value-oriented investment approach to small and mid-cap global equities that seeks to identify and invest in quality businesses that create significant value but are mispriced, overlooked and out-of-favour. We use tools such as: Free Cash Flow multiple, P/E, EV/EBIT, EV/EBITDA to understand the cash generating capabilities of the business. The qualitative analysis and competitive advantages of a business are of equal or greater importance in understanding the economic moat and thus our margin of safety in the investment. We conduct independent analysis to generate our own investment ideas. Investment opportunities must meet the following 5 criteria to be considered for inclusion in the portfolio:</p> <ul style="list-style-type: none"> • A durable competitive advantage • Management alignment with minority shareholders • Strong corporate governance policies • Balance sheets that enable the company to self-fund if the credit markets temporarily close • Compelling valuations based on the company's long-term cash flow generating potential 	<p>Not surprisingly, the Investment Manager attributes stock selection as its primary driver of value add. Macroeconomic factors do provide some value add, but is minor, by comparison.</p> <p>FundSource notes the process behind buying a stock is deep, and has very few inputs, other than those from the investment team. The process looks to mitigate different accounting standards, less efficient and less liquid markets, weak or different governance standards. The Investment Manager views these as being simple areas, where significant errors can be made. The Investment Manager takes an 'if we don't understand it, we won't invest in it' approach.</p> <p>Buying and sizing decisions in the portfolio do not need to be unanimous, with Zell providing the top down risk and macroeconomic oversight, and retaining the final veto on any purchase decisions.</p> <p>The Investment Manager views the research process, based around the five criteria as generating three potential outcomes, buy, eliminate, or add to the watch list. The Investment Manager must believe a company, outside the five criteria, offers a targeted 20% annualised return, over a 3-5 year period. The manager is willing to let a company run in the portfolio, based on its expected holding period.</p> <p>The sell decision is very straight forward, resulting in a company achieving its target valuation, or the investment thesis has broken. FundSource notes it is difficult for a manager to provide definitive evidence as to how this affects performance. Investment Managers typically modify their targeted valuation, based on positive or negative news being released to market, providing a moving target. The delay in an Investment Manager realising when the investment thesis has deteriorated may be a slow drawn process, rather than a straightforward action.</p> <p>FundSource believes the Investment Managers Prohibited Investments provides some context around the sell decision, as it clear and concise.</p>
<p>Has the CIO/ Portfolio Manager personally invested in the Fund? If so, paying the same fees as other investors?</p>	<p>The CIO/ Portfolio Manager are based in Chicago and are all invested in the Lizard Hedged product. Due to specific tax issues related to PFIC accounting in the United States they aren't invested in this fund. However, there is a very high overlap in the underlying funds.</p>	<p>FundSource believes that the interests of investment personnel are better aligned to those of the investors, when investment personnel are significantly invested, and at the same fees.</p> <p>The Manager believes this to be an important aspect as well, and accordingly,</p>

		<p>key investment personnel are invested in a US registered sister fund to this Pengana Global Small Companies Fund. The rationale behind this is logical, and takes account of jurisdictional issues for the investment team. Effectively the investment team are eating their own cooking, bringing strong investor alignment.</p>
<p>How much latitude does the Manager have to deviate from the weightings of the Benchmark portfolio?</p>	<p>We are a truly active benchmark unaware manager, a company's weighting in an index is irrelevant to us and our investment decisions. We also have a concentrated portfolio of typically 30-80 stocks to ensure all our investments have the potential to add significantly to the performance of the Fund. This means each stock represents between 2-5% of the Fund.</p> <p>Tracking Error >5% Cash: 0% to 20% Single Position: ≤10% Single Industry: ≤35% US Listed Securities: ≤55% Other Countries: ≤25% Unlisted Companies: ≤ 5%</p>	<p>The Manager has a focused value based investment style that looks for companies that a generating strong positive cashflows today, and are likely to continue to grow those income streams over the next two to three years. The Fund targets a median market capitalisation of less than US\$3 billion, importantly investors should be aware this does not preclude the Fund from holding companies with a market capitalisation greater than US\$3 billion. The portfolio holding can range between 30-80 companies, however will typically sit around 45-60 companies.</p> <p>Risk management ranges for the Fund are a mix of hard and soft parameters, with the Cash range being one of the few the hard parameters, outside the five qualitative criteria, that all companies must achieve. The Investment Manager is clear that guidelines around companies, sectors, countries and regions are objectives, not absolute limits. With this in mind, FundSource believes the Investment Manager has a significant degree of discretion in portfolio construction, and can take meaningful positions in a single company. The Investment Manager will typically hold 2-4% positions in the portfolio. The Investment Manager only invests in unlisted companies when their listing is imminent.</p> <p>From a currency perspective, the Fund is typically unhedged, therefore performance may be negatively or positively impacted by movement in currencies, not only from an AUD: NZD perspective, as the Fund is an AUT, but within the Fund, depending on which exchange companies are bought through.</p>
<p>On what basis does the Manager believe the fees they charge are justified?</p>	<p>We have done fee comparisons with regard to other competitive funds and believe that our fee structure is favourable for investors. There are no entry or exit fees - only management fees and performance fee (subject to high water mark)</p>	<p>FundSource believes the Manager is transparent from a fees perspective, noting the annual fund charge is capped, (the performance fee is not capped), as disclosed in the Product Disclosure Statement (PDS).</p> <p>Of the 124 FE Analytics NZMI Equity Global sector peer funds, the Manager Basic Fee, of 1.334% pa, is in line with the average fee charged in the FE analytics peer group.</p> <p>FundSource notes that only 20 funds in the FE Analytics peer universe charges a performance fee. The performance fee is among the highest on an absolute basis. The performance fee is subject to a high</p>

		<p>water mark, and importantly cannot be reset.</p> <p>FundSource would prefer to see Manager Basic Fees below the average fee charged, when performance fees are applied. FundSource appreciates that the FE Analytics peer sector universe predominantly represents large cap global equity funds, whereas this Fund is a small to mid-cap fund, which is less transparent and requires greater effort from fund managers.</p>
<p>How would you describe the quality of your organisational and investment governance processes?</p>	<p>Pengana is one of the more well-known fund managers in the market with a reputation for having strong governance and management. Pengana has appointed external parties as service providers and has strong internal control system and checks to comply with the standards. Pengana has ensured that a risk management culture has been embedded into all business units within compliance, operations, finance and investment risk management. Key personnel within Pengana are responsible for different elements of the risk control process. Most of these responsibilities lie with the COO/CFO and CIO. Both individuals provide assistance to the Board of Directors in fulfilling its corporate governance and oversight responsibilities in relation to the Pengana Group companies' financial reporting, internal control structure, risk management systems and compliance framework and the external audit functions. Philosophically we believe that risk is best managed by planning for the consequences of risk events rather than trying to predict them.</p>	<p>The Manager avoids several industries, tobacco, gaming, animal husbandry and defence. While Pengana is cognisant of environmental, social and governance (ESG) frameworks investment teams have discretion over where they will invest. Systems such as Sustainalytics are available, but are not embedded in to the process. This may change in the future.</p> <p>Risk management controls and governance are embedded in to the software systems employed by the Manager. FundSource notes the Pengana Group CIO is Nick Griffiths. Jordan Cventanovski, in his capacity as CIO of International equities, has ultimate responsibility for four funds at present. Griffith chairs the risk committee. Griffith shares the risk oversight with COO/CFO Katrina Glendinning, who sits on Compliance and Risk Committees. The Risk Committee consists of internal members only. The Compliance Committee consists of three people, two being external members. FundSource views independence in the oversight of a Responsible Entity as important. FundSource would prefer to see some independent members represented across all key committees.</p> <p>FundSource highlights the Pengana Board is a blend of previous Hunter Hall and Pengana Board members. The Pengana Board consists of six members who, other than Chief Executive Russell Pillemer, are non-executive directors. FundSource is cognisant that Pengana in its current guise is relatively new, coming together in 2017 and accordingly FundSource is mindful of any changes in the board and executive team.</p>
<p>Is there alignment of interests through; ownership of the Manager, and remuneration of the investment team?</p>	<p>There is a clear alignment of interest between the Manager and the investment team. Senior investment professionals have direct profit shares in their funds and are rewarded for fund performance and assets under management. Each Fund is accounted for as a separate business unit within Pengana Holdings. Pengana and the funds management team share in the profits generated by the business unit in a fixed proportion. Pengana funds the business unit until it becomes profitable. Pengana's directors and staff have significant ownership interests in the</p>	<p>Pengana, through its merger with Hunter Hall, and development of new investment product and investment teams, has undergone significant growth and change over the past three years. FundSource believes that the board and executive team have strong industry histories to navigate a positive but turbulent period.</p> <p>Change and growth have also been as active in the investment teams and product suite, some by establishing new products, and by merger. While some funds may not be profitable, Pengana has been well</p>

	<p>business. Compensation is a combination of base salary and equity or a share of profits in the business unit.</p>	<p>supported in the market historically, and continues to manage a reasonably large sum of funds on behalf of investors.</p> <p>The compensation of investment personnel is in line with industry standards, noting that the investment teams own the P&L's of the funds they manage and can share in the profits generated, as well as investing in the funds this produces a quasi-ownership of the Fund. FundSource notes that some of the investment team at Lizard Investors own equity in that company.</p>
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Conclusion and Rating

The Fund provides investors with exposure to a relatively unconstrained concentrated portfolio of small cap global companies. The portfolio is based around five highly repeatable criteria, based around durability, management alignment, strong corporate governance, balance sheet sustainability and compelling valuation. The portfolio process and structure allows the Manager to remain active, while maintaining a lower turnover as a significant number of companies fail to meet the Manager's five criteria. Due to the focus on small cap global companies, FundSource believes that investors considering this Fund, should have an investment timeframe greater than five years.

Pengana has undergone significant corporate change over the course of 2017, firstly being sold to WHSP, by the NAB, and merging with Hunter Hall. This degree of activity can usually be a red flag, fortunately for the Pengana business this does not appear to be the case, with little change in key personnel, other than NAB directors being replaced by Hunter Hall directors. Key executive roles have remained largely the same for Pengana, post NAB. FundSource believe this degree of activity can be distracting, particularly for the investment team. Some changes are expected as the Hunter Hall merger continues. FundSource highlights Lizard Investors LLC, founded in 2008, has remained unaffected by the changes at Pengana.

FundSource observes the core investment investment team has strong industry experience, with the core of the team being in place since manager inception, in 2008. Recent analyst hires

have occurred in 2015 and 2017. Changes in the analyst team have been a result of a staff departure, and most recently team growth. FundSource is keen to see stability in the analyst team, but notes the senior investment team are key decision makers and well tenured. Overall FundSource believes the investment team is adequately resourced to manage the small suite of products. The interests of the investment team are aligned to those of the investor, by investment in the funds they manage and recognising jurisdictional requirements. This degree of alignment is viewed positively.

FundSource notes the manager's basic fee is in line with the average FE Analytics NZMI Equity Global peer fee, and no performance fees are charged. The Fund is one of the few funds in the FE Analytics sector to charge a performance fee. FundSource prefers to see basic management reduced when performance fees are paid and believe that there is scope for the Manager to review this. All other aspects of the performance fees are in line with best practice for performance fees.

FundSource recommends that investors carefully consider that the Manager's approach to managing a relatively concentrated, international small cap focused, equities portfolio meet their investment needs and objectives.

FundSource Rating: **AA**

Fund ratings are current as at the date of publication of this report. FundSource reserve the right to review and update fund ratings from time to time.

Research Factor Weighting

Research Process Category	Model Factor Weight	Analyst Average Score
Corporate & Investment Governance	15%	4.50 / 5
Investment Philosophy & Process	20%	4.20 / 5
People	25%	3.67 / 5
Portfolio Construction & Implementation	15%	3.83 / 5
Risk Management	15%	4.20 / 5
Investment Fees	10%	4.00 / 5

Overall Average Score: **4.04 / 5**

FundSource Rating Guide

The qualitative rating of a fund is a function of the FundSource Research Factor Weighting process, which is built around the six core qualitative research process categories. The weighted scores result in an overall score, out of five, which is then matched to the following rating:



AAA: Highly Recommended

Funds that have superior average scores in all six underlying qualitative factors. This recognises aspects about the Manager and Fund in question that includes, but is not limited to, significantly experienced and stable senior personnel, a sound track record over a full market cycle, a clearly defined investment philosophy and process, and a portfolio consistent with that philosophy and process. The management company will also have established effective controls to maintain that philosophy.

AA: Recommended

Funds that have strong average scores in all six underlying qualitative factors. This recognises aspects about the Manager and Fund in question that includes, but is not limited to, experienced and stable personnel, a sound track record over a full market cycle, a clearly defined investment philosophy and process, and a portfolio consistent with that philosophy and process. The management philosophy must be coherent and consistent with existing portfolios and processes.

A: Investment Grade

Funds that have good average scores in all six underlying qualitative factors. This recognises aspects about the Manager and Fund in question that includes, but is not limited to, experienced personnel, a sound track record a defined investment philosophy and process, and a portfolio consistent with that philosophy and process.

FW: Fund Watch

There has been a material change with either the manager, this may include, but is not limited to, departures, new hires, process changes, changes to the investment philosophy. This is considered to be an interim measure, to enable further investigation, re-evaluation and an appropriate course of action to be determined.

S: Sell

This category covers previously recommended funds that are no longer recommended because of some material change. Removal from recommended status might be for a variety of reasons such as a fundamental change in the fund management company or in the manager's investment strategy, or because a fund did not meet its original expectations. The implications for ongoing service are that the fund should be reviewed on an individual client basis to ensure it still matches their original investment objective.

NR: Not Rated – Screened/ Not Rated

Funds in the Not Rated – Screened category have provided information and/or FundSource has conducted an initial analysis of the fund, but has chosen not to provide a recommendation at this stage. FOR Not Rated funds the manager may have provided information, but no review meeting has been conducted

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