



**PENGANA**  
CAPITAL



# Pengana Global Small Companies Fund

**September  
2020**



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MSCI ACWI (All Country World Index) ex US is a market capitalization weighted index maintained by Morgan Stanley Capital International that is designed to measure the equity market performance of developed and emerging markets excluding the United States.

MSCI ACWI ex US performance is based on daily net total returns in US dollars and includes the minimal possible dividend reinvestment.

MSCI ACWI SMID (small and mid-cap) is a market capitalization weighted index maintained by Morgan Stanley Capital International that is designed to measure the equity market performance of developed and emerging markets worldwide.

MSCI ACWI SMID's performance is based on daily net total returns in US dollars and includes the minimal possible dividend reinvestment.

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# AGENDA

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# LIZARD INVESTORS AT A GLANCE



Specialist in small, mid-cap and value-oriented active global equity investing



**LIZARD**investors

- 80+ years combined investment experience across multiple market cycles
- Team together since 2009
- Small specialist team improves clarity of ideas & communication
- Combine generalist views with the in-depth knowledge of a specialist to identify optimal opportunities across regions and sectors.
- Capacity limited to maintain performance
- Based in Chicago, U.S.

# INVESTMENT TEAM



**JON MOOG**  
CIO, Portfolio Manager

- Joined Lizard 2008
- 18+ years experience



**DAVID LI**  
Head of Research, Portfolio Manager

- Joined Lizard 2008
- 17+ years experience



**KEVIN McQUARRIE**  
Senior Analyst

- Joined Lizard 2018
- 13+ years experience



**MICKEY RYAN**  
Research Analyst

- Joined Lizard 2015
- 6+ years experience



**TAM PHAN**  
Research Analyst

- Joined Lizard 2017
- 8 years experience



**LEAH ZELL**  
Founder, Non-Exec Chairman

- Founded Lizard in 2008
- 25+ years investing in global SMID-cap equities

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# THE NOBEL CASE FOR SMALL COMPANIES

Fama French 3-factor model (1992)



$$r = R_f + \beta_1(R_m - R_f) + \beta_2(SMB) + \beta_3(HML) + \alpha$$

**3 factors explain over 90% of diversified portfolio returns:†**

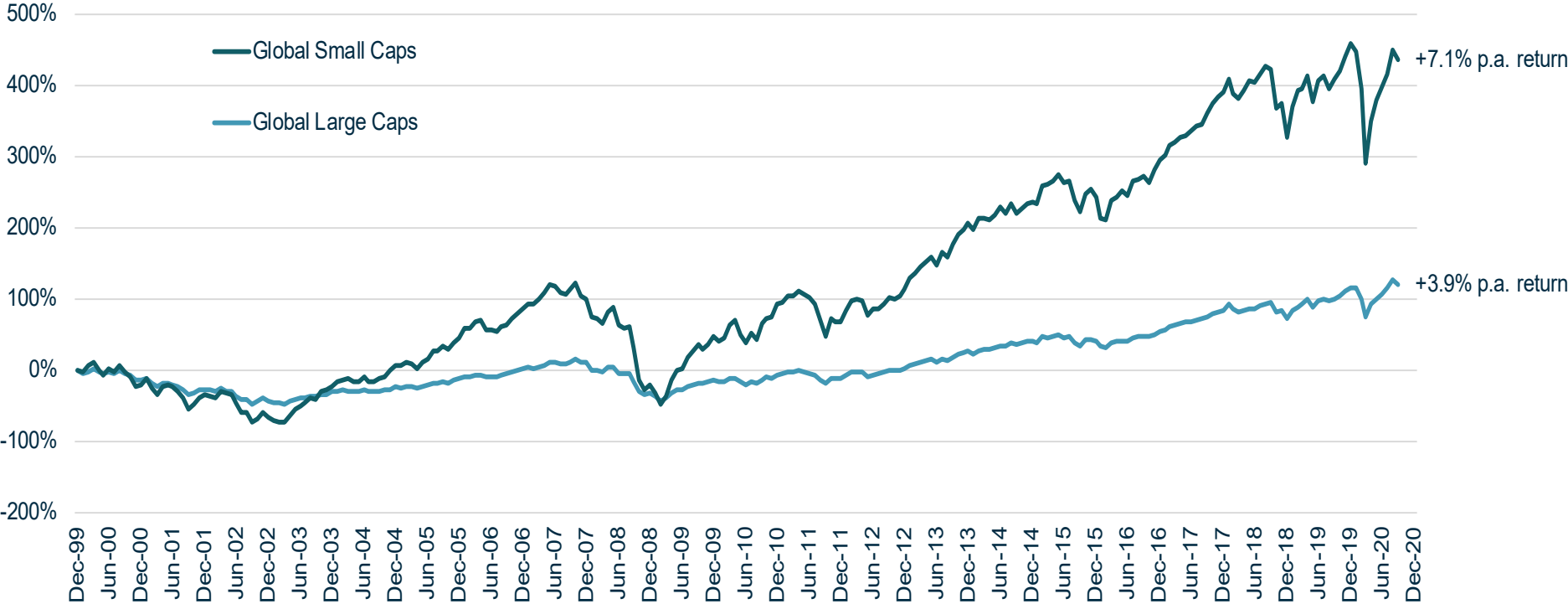
1. Excess Market Return ► **Traditional Beta**
2. Small Minus Big ► **Small Caps**
3. High Minus Low book-to-market ► **Value**

**The Pengana Global Small Companies Fund has exposure to all 3 factors**

† Fama, E. F.; French, K. R. (1992). "The Cross-Section of Expected Stock Returns". The Journal of Finance. 47 (2): 427. doi:10.1111/j.1540-6261.1992.tb04398.x. JSTOR 2329112.

# GLOBALLY SMALL COMPANIES HAVE OUTPERFORMED

The longer you hold them, the more chance of outperformance



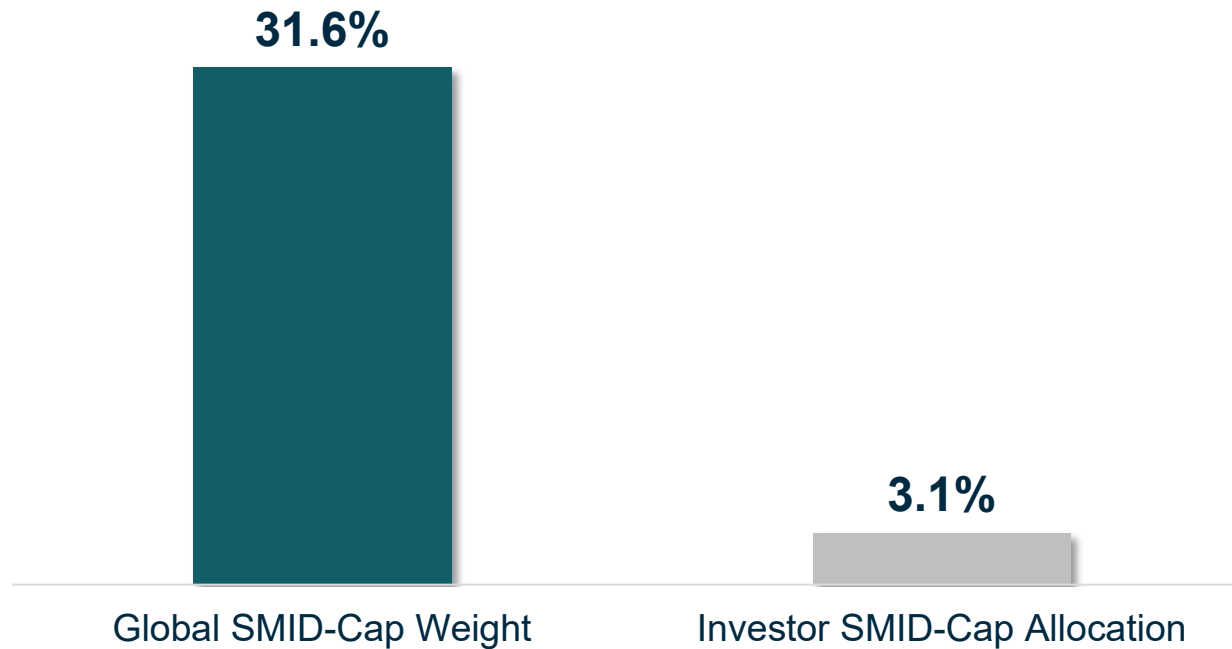
Indices used include the MSCI ACWI Small Cap Net Total Return Local Index and MSCI ACWI Net Total Return Local Index, 31/8/2020



# 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



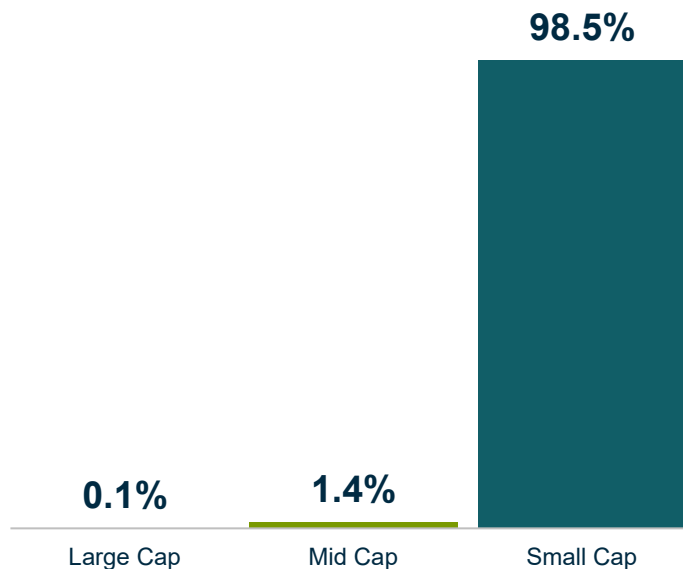
Source: Factset and Bloomberg for global market capitalisation amounts; Morningstar Direct for investor allocation. As at 31 October 2019. The investor SMID-cap allocation has been calculated by dividing the total AUM of Australian domiciled funds classified as 'Global Equity Mid/Small Cap' by the total AUM of those classified as either 'Global Equity Large Cap' or 'Global Equity Mid/Small Cap'.

# ACTIVE MANAGEMENT IS REQUIRED ...

Small companies are inherently less efficient than large companies.  
Relative inefficiency creates opportunities for active managers.

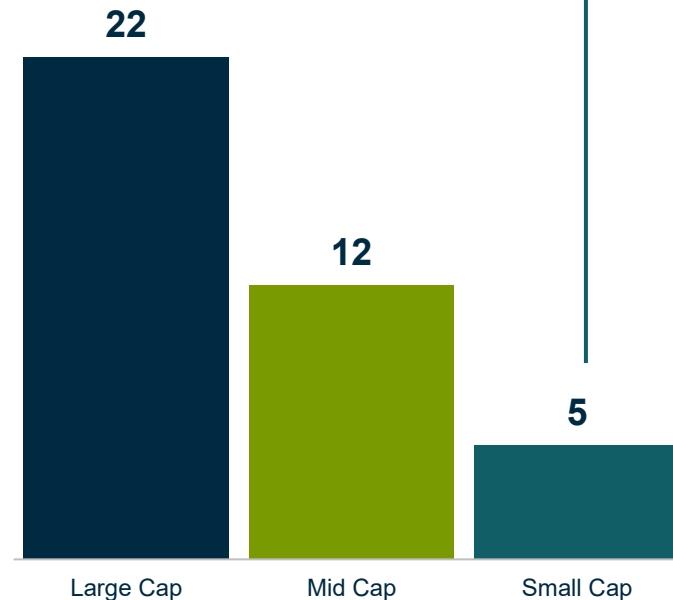
## Companies Without Analyst Coverage:

The vast majority of small cap companies do not have analyst coverage



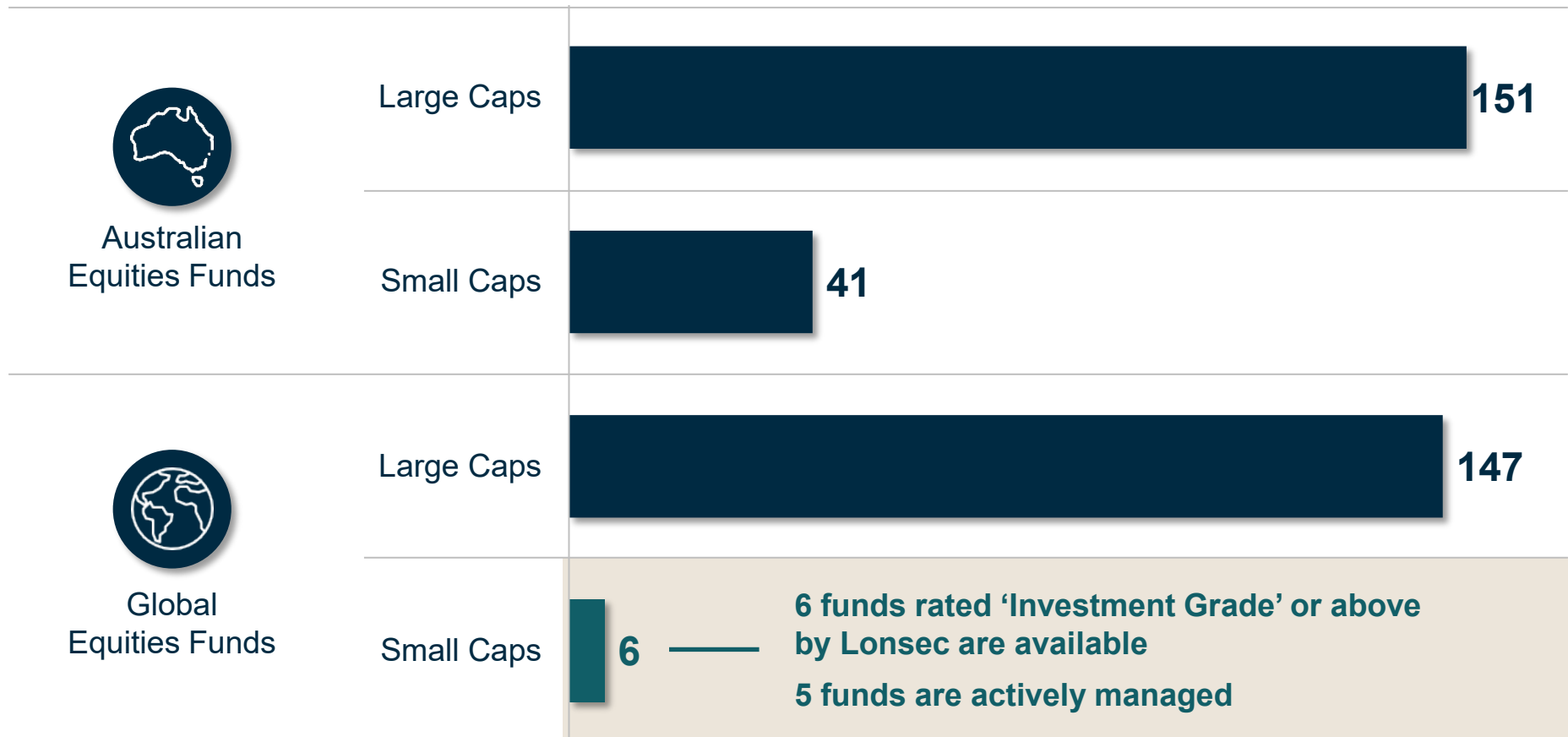
## Average Analyst Coverage:

For companies with research, small caps are on average covered by a fewer number of analysts



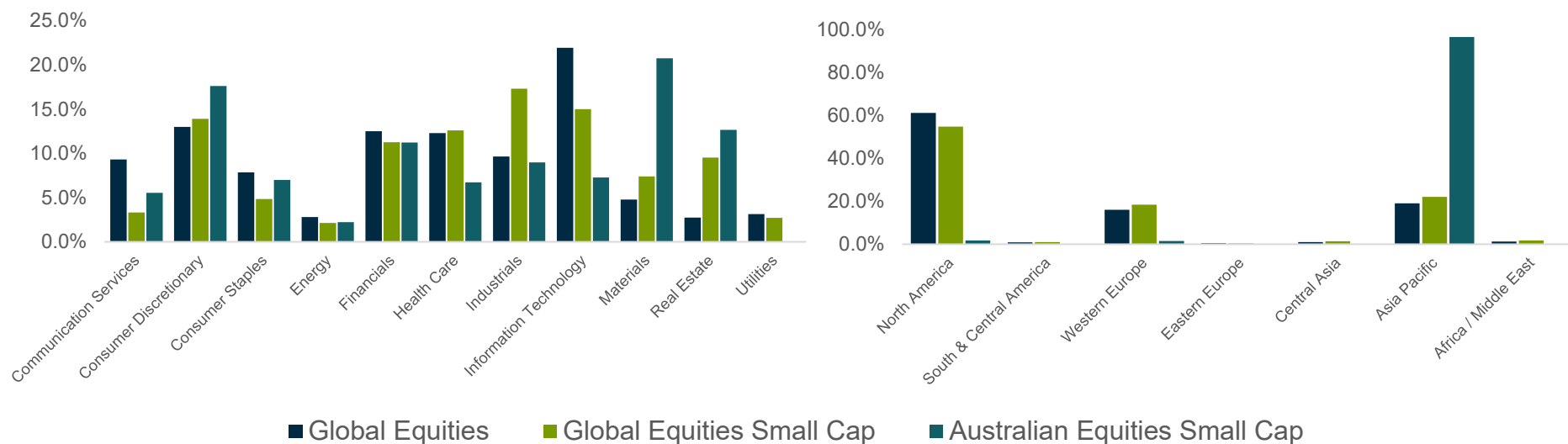
# ... BUT THERE ARE FEW OPTIONS

Investors inundated with Australian large and small cap funds plus global large cap funds, yet they lack global small cap options



# GLOBAL SMALL CAPS ARE A DISTINCT OFFERING

	Global Equities			Global Equities Small Cap			Australian Equities Small Cap		
Index	MSCI ACWI			MSCI ACWI Small Cap			S&P/ASX Small Ordinaries		
Number of companies	2992			5758			201		
Market cap (US\$ m)	Min	Med	Max	Min	Med	Max	Min	Med	Max
	1,052	9,983	2,072,656	30	1,080	34,009	77	765	8,359
Dividend yield	1.95%			2.2%			2.7%		



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## Investing with a long-term horizon



Combine generalist views with the in-depth knowledge of a specialist



Concentrates capital in best ideas



Seeking high quality franchises with the ability to compound value over a long period of time

# RESEARCH & ANALYSIS – 5 KEY CRITERIA

## High Quality Franchises at Attractive Valuations

1

SUSTAINABLE  
BUSINESS  
MODEL

Enduring  
competitive  
advantage

2

STRONG  
BALANCE  
SHEET

Able to self-fund if  
capital markets  
close

3

DISCIPLINED  
AND ALIGNED  
MANAGEMENT

Motivated by return  
on invested capital

4

CORPORATE  
GOVERNANCE

Protects minority  
shareholders

5

COMPELLING  
VALUATION

Inexpensive relative  
to unlevered free  
cash flow

Must meet all 5 criteria AND  
targeted to generate 20% annualized returns on a 3-5 year basis

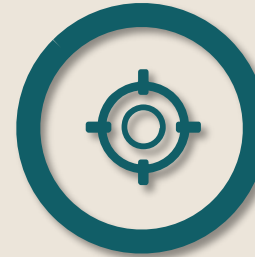
# PORTFOLIO CONSTRUCTION

## EXPOSURE



- ✓ 80% – 100% long
- ✓ 20% cash – max
- ✓ 5% cash – typical

## SECTOR FOCUS



- ✓ Broad generalist mandate; allows for opportunities across all sectors
- ✓ Exceptionally strong expertise in consumer and IT sectors
- ✓ Limits

## CONCENTRATION



- ✓ Range 30 – 80 positions
- ✓ Typically about 40 positions
- ✓ Position size: 2% – 5%
- ✓ Max position size: 10%

## GEOGRAPHY



- ✓ Diversified across sectors and markets
- ✓ Regional and market inefficiencies provide consistent sources of investment opportunities

## TIME HORIZON



- ✓ Typically 2-5 years
- ✓ Average annual turnover is 40%

## MARKET CAP



- ✓ Target median market cap: < \$3 billion (USD)



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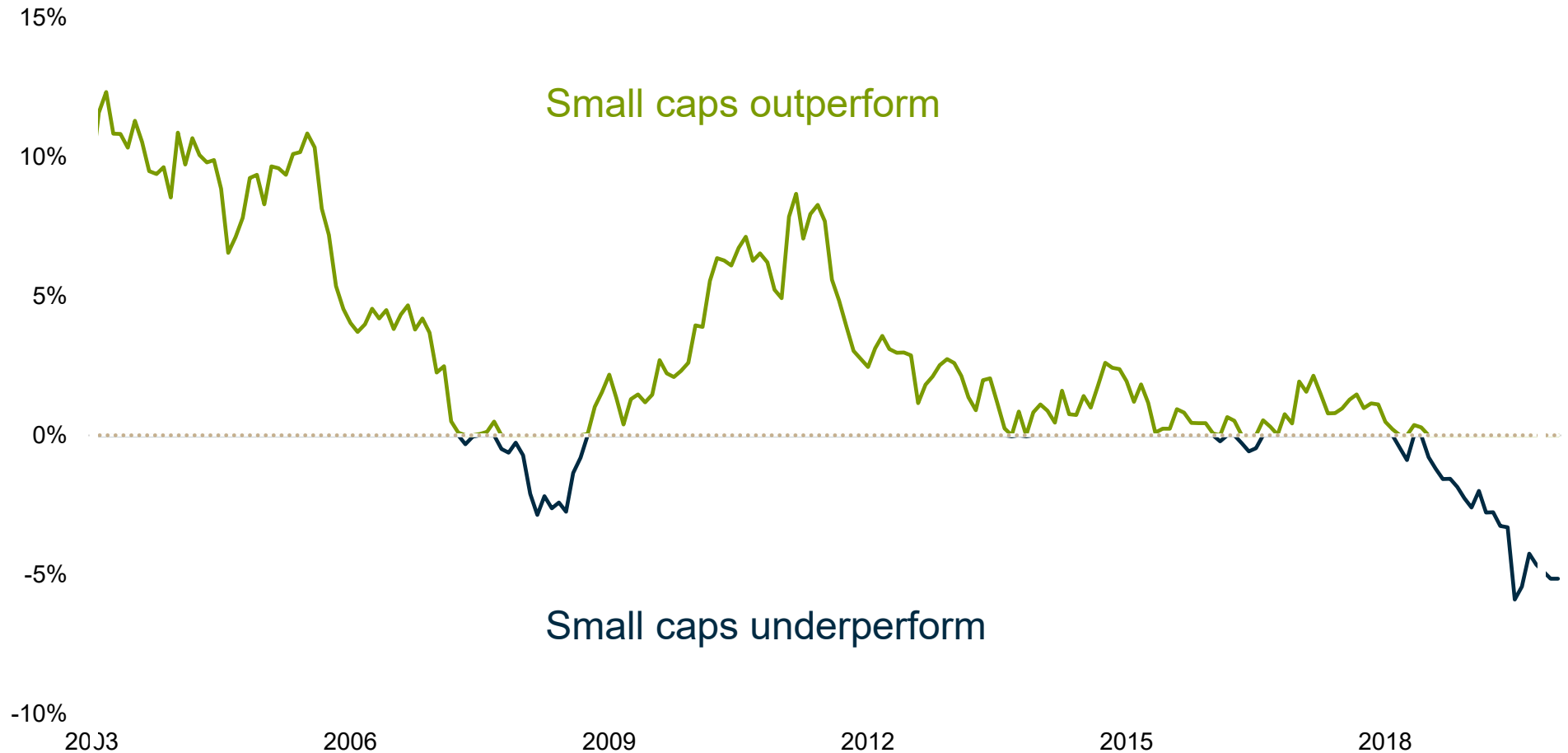
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# SMALL COMPANIES HAVE OUTPERFORMED GLOBAL PEERS

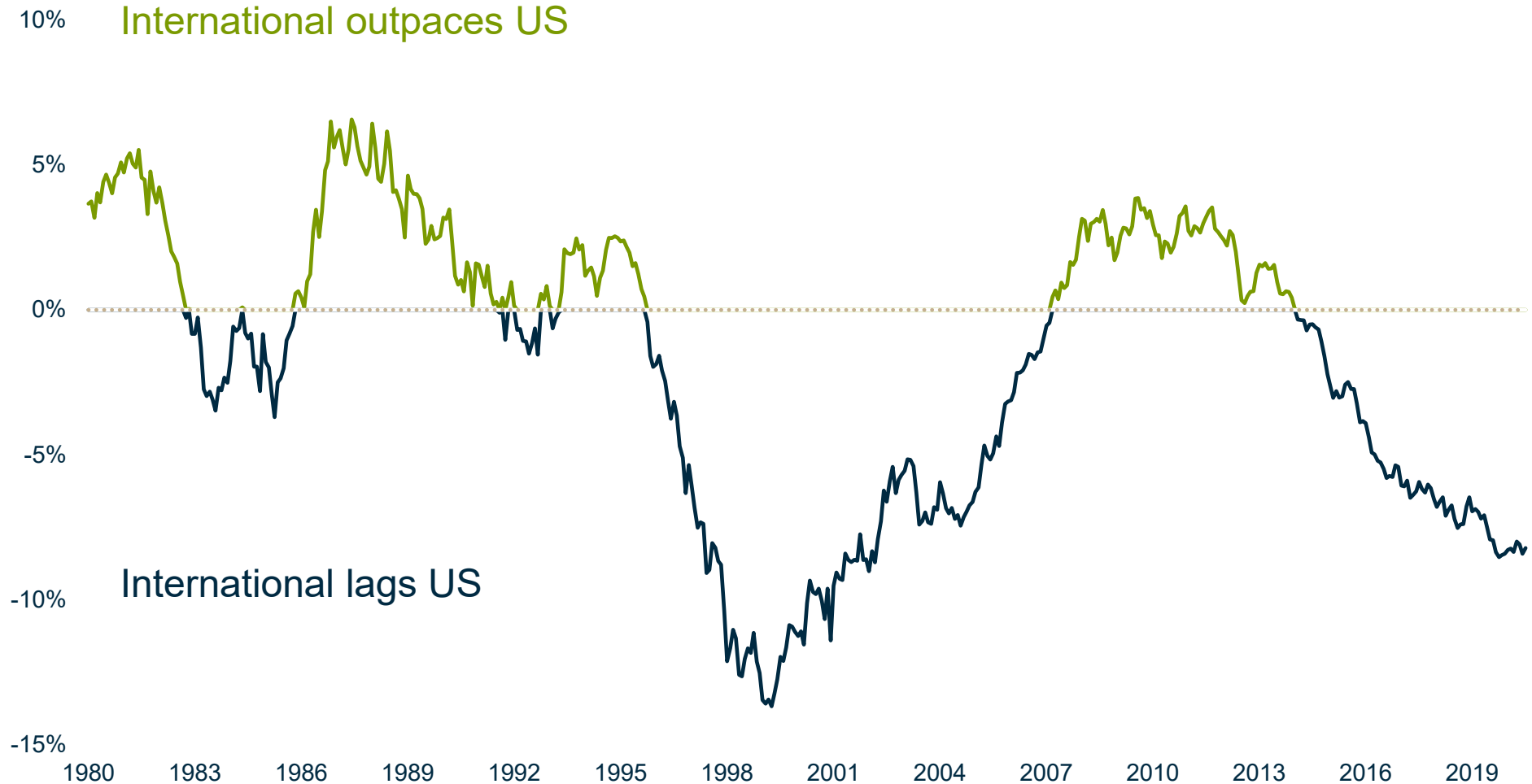
Rolling 3Y excess return (MSCI ACWI Small Cap vs MSCI ACWI)



As of 30 September 2020. Annualised 3-year total return of the MSCI ACWI Small Cap Net Total Return Local Index and MSCI ACWI Net Total Return Local Index. Past performance is not necessarily a guide to future performance. No assurance can be given that any investment will achieve its objective or avoid losses.

# INTERNATIONAL VS US EQUITIES

Rolling 10 year relative returns



As of 30 September 2020. Annualised 10-year total return of the S&P 500 Index vs the MSCI World ex USA Index. Past performance is not necessarily a guide to future performance. No assurance can be given that any investment will achieve its objective or avoid losses.

Sources: Bloomberg.

# STRONG PERFORMANCE THROUGH STOCK SELECTION

1 year ending 30 September 2020



By Sector	Portfolio Weight (Avg %)	Index Weight (Avg %)	Portfolio Contribution (%)	Index Contribution (%)	Total Alpha (%)
Total	100.0	100.0	10.2	-1.7	11.9
Consumer Discretionary	19.4	11.7	7.7	0.0	7.4
Industrials	20.0	17.0	2.4	-0.3	2.6
Communication Services	7.3	4.4	-2.3	-0.0	-1.8
Consumer Staples	13.8	4.9	3.8	0.1	3.4
Financials	10.7	12.5	-1.5	-2.7	1.7
Information Technology	16.5	14.6	2.5	2.7	-0.6
Energy	2.2	2.6	-3.9	-1.6	-0.6
Materials	0.1	8.1	-0.0	0.5	-0.1
Health Care	2.4	10.7	1.7	2.6	-1.0
Real Estate	0.6	9.2	-0.3	-2.5	2.0
Utilities	0.0	4.3	0.0	-0.6	0.7
Not Classified	0.0	0.0	-0.0	0.0	-0.0
Cash	6.9	0.0	0.1	-0.0	-1.8

Source: Bloomberg. The Index refers to the MSCI All Country World Index SMID-Cap unhedged in AUD.

**Past performance is not necessarily a guide to future performance. No assurance can be given that any investment will achieve its objective or avoid losses.**

# STRONG PERFORMANCE THROUGH STOCK SELECTION

1 year ending 30 September 2020



By Region	Portfolio Weight (Avg %)	Index Weight (Avg %)	Portfolio Contribution (%)	Index Contribution (%)	Total Alpha (%)
Total	100.0	100.0	10.2	-1.7	11.9
Western Europe	36.8	21.0	4.6	0.0	5.0
North America	25.5	52.9	0.5	-1.2	4.2
Asia Pacific	20.3	21.1	2.1	0.2	1.6
Eastern Europe	8.7	0.6	0.8	-0.0	0.8
Africa / Middle East	0.9	1.9	2.4	-0.2	2.4
South & Central America	0.9	1.5	-0.3	-0.5	-0.3
Central Asia	0.1	1.1	-0.0	-0.1	0.0
Cash	6.9	0.0	0.1	-0.0	-1.8

By Market Cap	Portfolio Weight (Avg %)	Index Weight (Avg %)	Portfolio Contribution (%)	Index Contribution (%)	Total Alpha (%)
Total	100.0	100.0	10.2	-1.7	11.9
< 1bn USD	26.2	7.8	-6.5	-3.8	-1.1
1bn - 2bn USD	17.0	10.8	5.2	-2.7	7.7
2bn - 5bn USD	24.9	26.2	1.2	-3.2	4.3
5bn - 10bn USD	15.4	26.0	6.8	0.4	5.6
> 10bn USD	9.7	29.2	3.5	7.5	-2.8
Not Classified	0.0	0.0	0.0	0.0	-0.0
Cash	6.9	0.0	0.1	-0.0	-1.8

Source: Bloomberg. The Index refers to the MSCI All Country World Index SMID-Cap unhedged in AUD.

**Past performance is not necessarily a guide to future performance. No assurance can be given that any investment will achieve its objective or avoid losses.**

## GOALS

**Preserve capital in the short term.**

**Acquire superior businesses**

at discounted prices that will drive portfolio returns in the medium term.

## INCREASED INTERACTIONS

Dramatically increased our interactions with management teams this quarter.

Conducted a total of 178 calls in February and March alone, as compared to 30 - 40 calls in a typical month.

## INCREASED TRADING ACTIVITY

Acted quickly to capitalise on **attractive opportunities**.

- 12 new positions

Reduced positions in sectors and companies that will be impaired by the crisis.

- 8 positions exited and 19 reduced

# CURRENT MARKET ENVIRONMENT – WHEN WILL IT END



- Markets have recovered with help of unprecedented liquidity and stimulus
- Risks still present that would challenge economic growth / recovery
  - Unemployment at the top of the list
- Capital Markets are very active
  - Very high levels of IPO activity (likely largest year in US since 2000)
- Will there be more stimulus from the US Post election
- DO WE FINALLY HAVE LINE OF SITE ON A VACCINE?
- How bad will winter be in Norther Hemisphere?

# PORTFOLIO POSITIONING



- The value vs. growth debate has become even more extreme, investors are being forced to adapt
  - Some small rotation has started
- Starting to reexamine industries impacted by COVID, but still need to get through spike
- Continue to be underweight US
- Pipeline activity robust and healthy
  - Plenty of ideas for us to invest in
  - Allowing us to exit those names with lower IRRs with no issue
- Secular changes in how we consume, live and work all continuing to drive changing competitive dynamics
  - Winners vs. losers fundamentally as wide as we have seen in our careers
- Conservative portfolio positioning with continued overweight of those businesses that are improving their market positions
- Recent reports season has been encouraging for many of our portfolio companies



# PORTFOLIO SUMMARY

A fund with active exposures



## Exposures

As At 30 September 2020	Positions	Top 5	Top 10	Total Equities
	50	18.9%	35.0%	92.4%

Region	Fund	Index
Western Europe	38.7%	20.4%
Asia Pacific	16.1%	21.8%
North America	27.9%	53.0%
Eastern Europe	5.2%	0.7%
Africa / Middle East	2.7%	1.9%
South & Central America	1.5%	1.1%
Central Asia	0.3%	1.1%
Cash	7.6%	0.0%

Sector	Fund	Index
Consumer Discretionary	28.8%	12.2%
Industrials	14.4%	16.9%
Consumer Staples	9.6%	4.7%
Financials	8.5%	11.4%
Communication Services	4.5%	4.8%
Information Technology	20.4%	16.0%
Energy	-	2.2%
Materials	1.0%	8.6%
Health Care	3.3%	11.2%
Real Estate	1.0%	8.2%
Utilities	-	3.8%
Not Classified	1.1%	-
Cash	7.6%	0.0%

Market Cap (US\$)	Fund	Index
< 1bn USD	16.4%	6.9%
1bn - 2bn USD	25.9%	10.4%
2bn - 5bn USD	21.9%	25.1%
5bn - 10bn USD	20.1%	24.6%
> 10bn USD	8.2%	32.9%
Not Classified	-	0.0%
Cash	7.6%	0.0%

Values may not sum to 100% due to rounding. All exposures are based on the portfolio holdings on the last day of the month. Sector exposure is based on Global Industry Classifications (GICs). Currency exposure is based on equity and currency holdings. All portfolio data is calculated for internal purposes and is not based on audited information.

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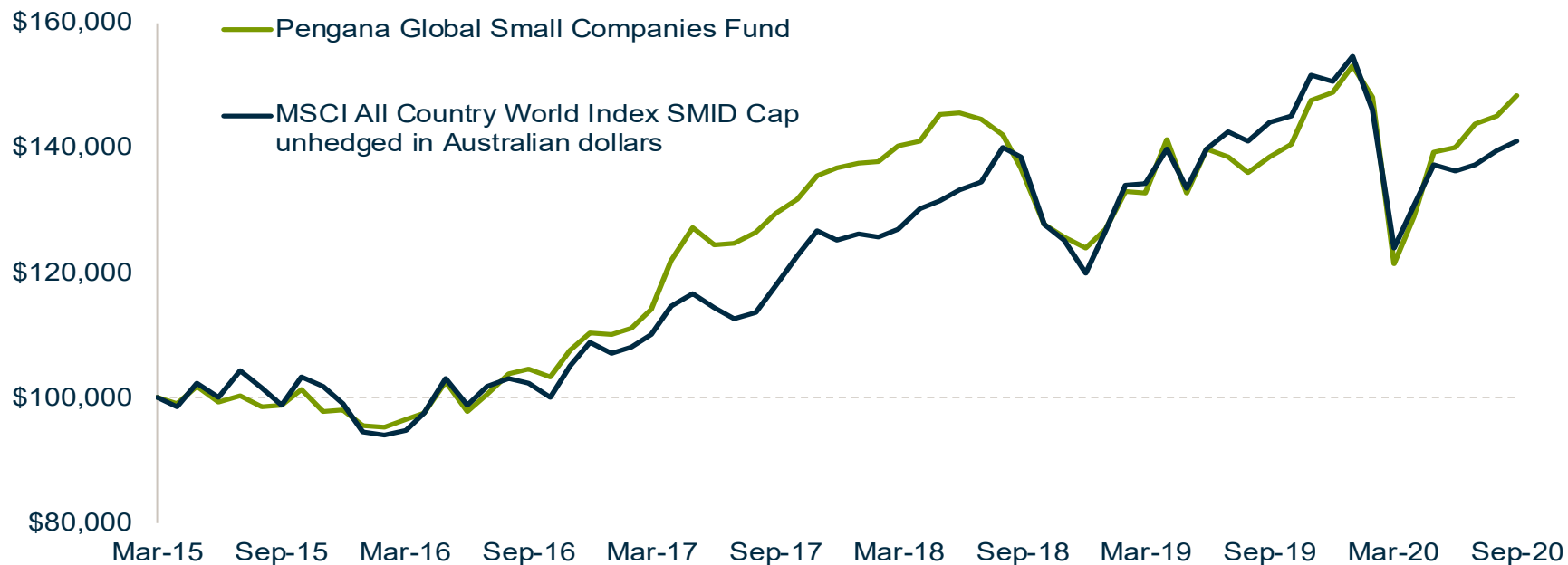
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# FUND PERFORMANCE

Growth of \$100,000 since inception



## Net returns (%) to 30 September 2020

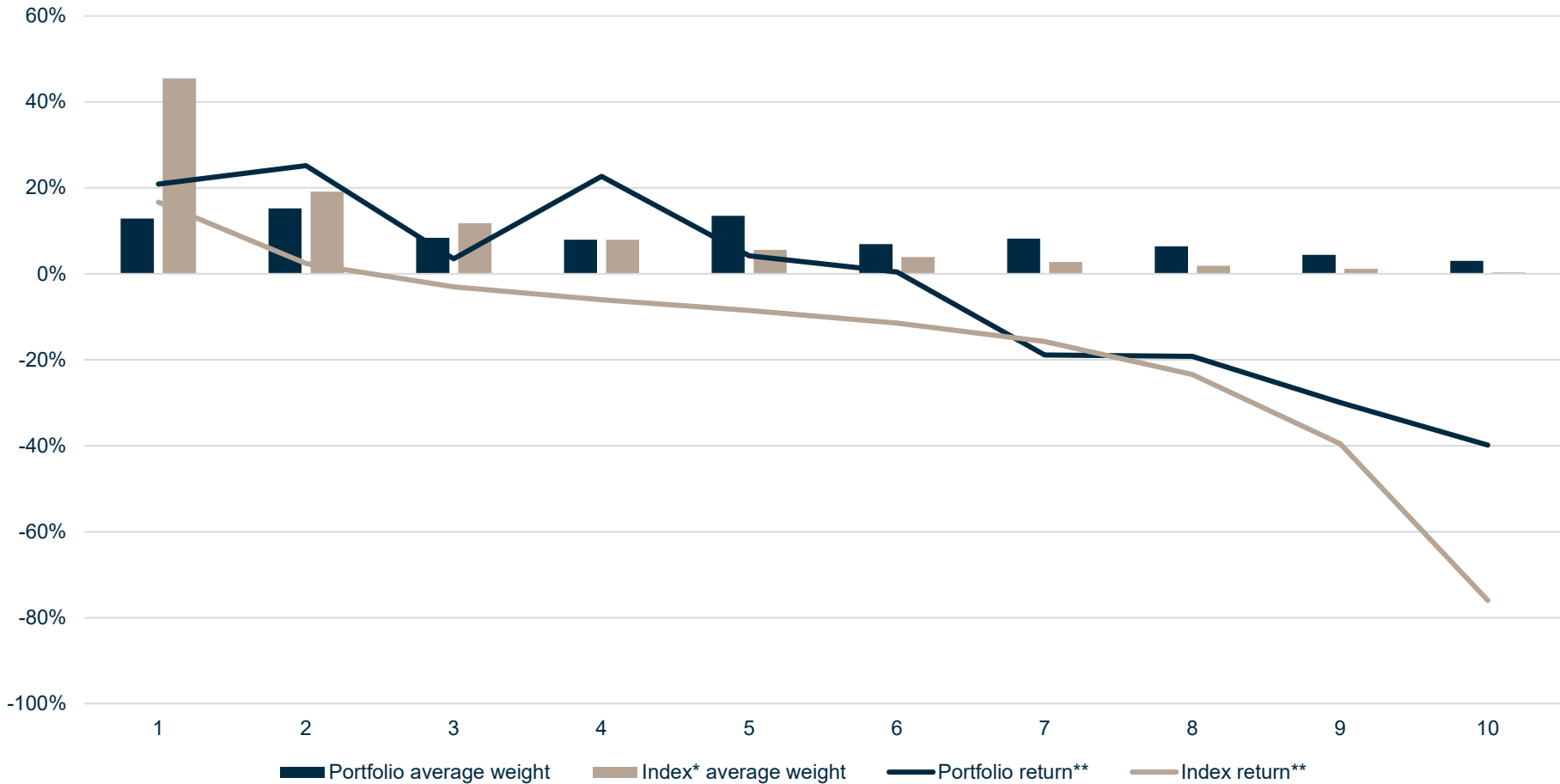
	1 mth	3 mths	6 mths	1 yr	3 yrs p.a.	Since Inception p.a.
<b>Fund</b>	2.2	5.8	22.2	7.1	4.6	7.4
<b>Benchmark**</b>	1.1	3.5	13.8	-2.0	6.2	6.5

\*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 investments can go up and down; inception date: 1 Apr 2015

\*\*Data for MSCI All Country World SMID Cap Index unhedged in AUD.

# PERFORMANCE DIFFERENTIATION

## 3Y Performance by USD Market Cap



As of 30 September 2020. \*MSCI All Country World Index SMID. \*\*Annualised return in local currency.

Sources: Bloomberg.

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# TOP HOLDINGS (ALPHABETICALLY)

30 September 2020

	Boohoo.com		United Kingdom	Consumer Discretionary
	NICE Information Service		Korea, Republic Of	Industrials
	Kindred Group PLC		Malta	Consumer Discretionary
	TFI INTERNATIONAL INC		Canada	Industrials
	Dino Polska		Poland	Consumer Staples

## Company Description

Fiverr is an online marketplace for freelance services. Fiverr provides a platform for freelancers to offer services to customers worldwide.

## Sourced

Monitored since IPO. It perked our attention because market was not served efficiently prior to FIVERR

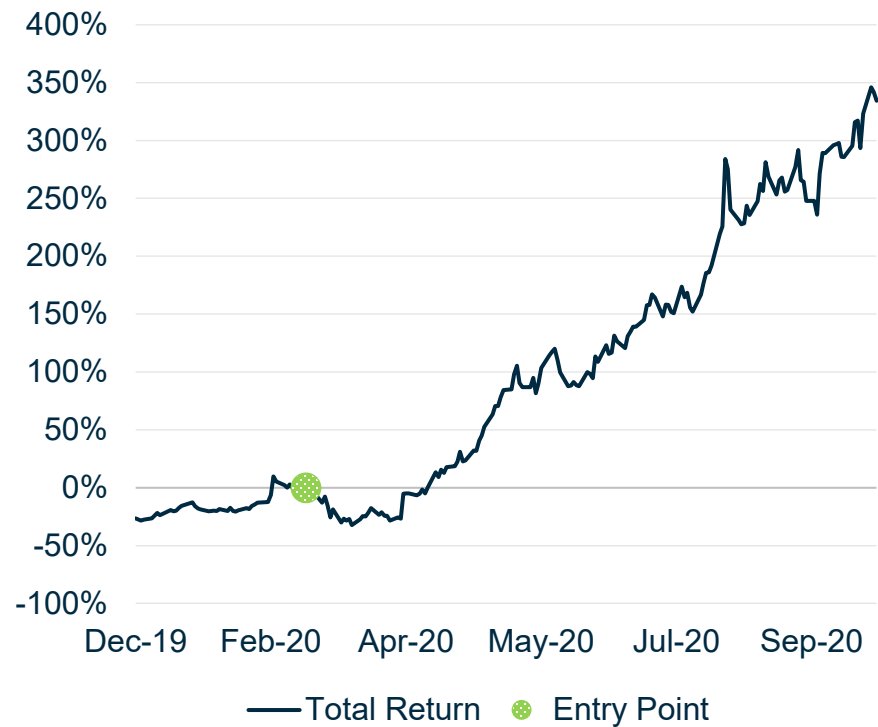
## Investment Thesis

- Serving the freelance market efficiently in what had previously been a word of mouth industry.
- Saving buyers and sellers meaningful time and effort to match.
- Customer unit economics very attractive when looked at on a LTV perspective
- Huge penetration opportunity as business is still in the early innings
- Rapid and aggressive international expansion

**Initial purchase March 2020**  
**Avg. buy price \$45.53**  
**Current price \$138.98**

## Cumulative Price Change†

Rebased to 0% at initial entry point



† Distributions are reinvested. Adjusted for any corporate actions (e.g. splits and spinoffs).

Source: Bloomberg. As at 30 September 2020. The examples included herein have been selected solely to demonstrate the investment strategy and process of Lizard Investors. There can be no guarantee that these or similar opportunities will be available to the Fund. The examples should not be construed as an indicator of future performance.

## Company Description

FDM Group is an international professional services company headquartered in London, with global offices. FDM Group's model involves recruiting recent university graduates, returners to work and ex-forces to turn into consultants for their clients.

## Sourced

This was sourced off our watchlist. A business we have admired for some time.

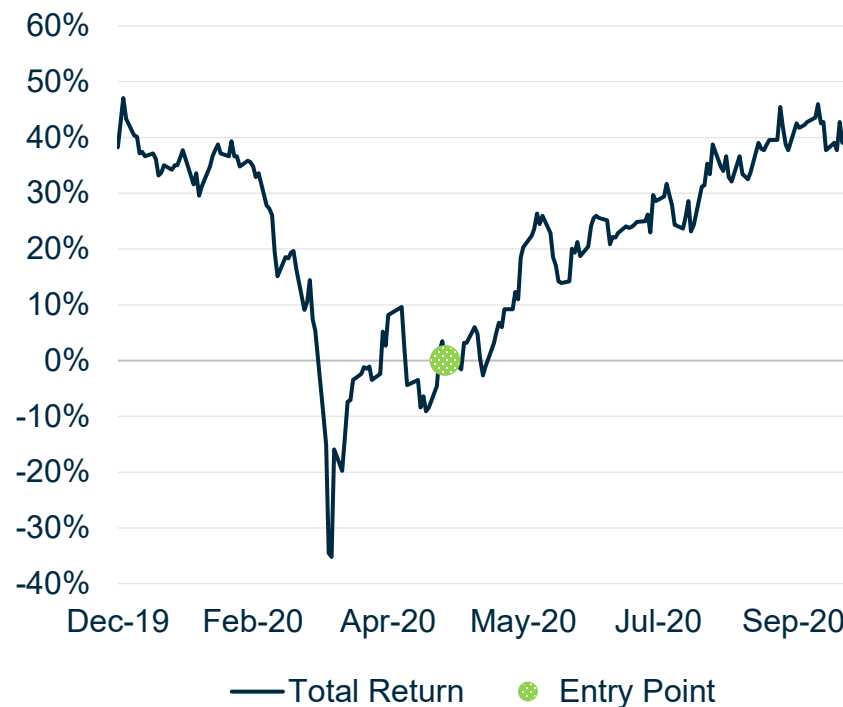
## Investment Thesis

- Creating their own market with no competition.
- Serving a market need and creating significant value for entire stakeholder set
- Opportunity for growth by adding new industries and geographies
- Excellent balance sheet and insider alignment. Founders own > 20% of business
- Excellent cash flow and return profile.

**Initial purchase April 2020**  
**Avg. buy price £8.94**  
**Current price £10.18**

## Cumulative Price Change†

Rebased to 0% at initial entry point



† Distributions are reinvested. Adjusted for any corporate actions (e.g. splits and spinoffs).

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### Company Description

BHG Group operates as an e-commerce company, with an online focus on home improvement retail products. It serves customers across Europe.

### Sourced

Management initially worked at a business in Nordic region called CD-on in 2008/2009. When we uncovered they had moved to BHG and were building something special we began investigating.

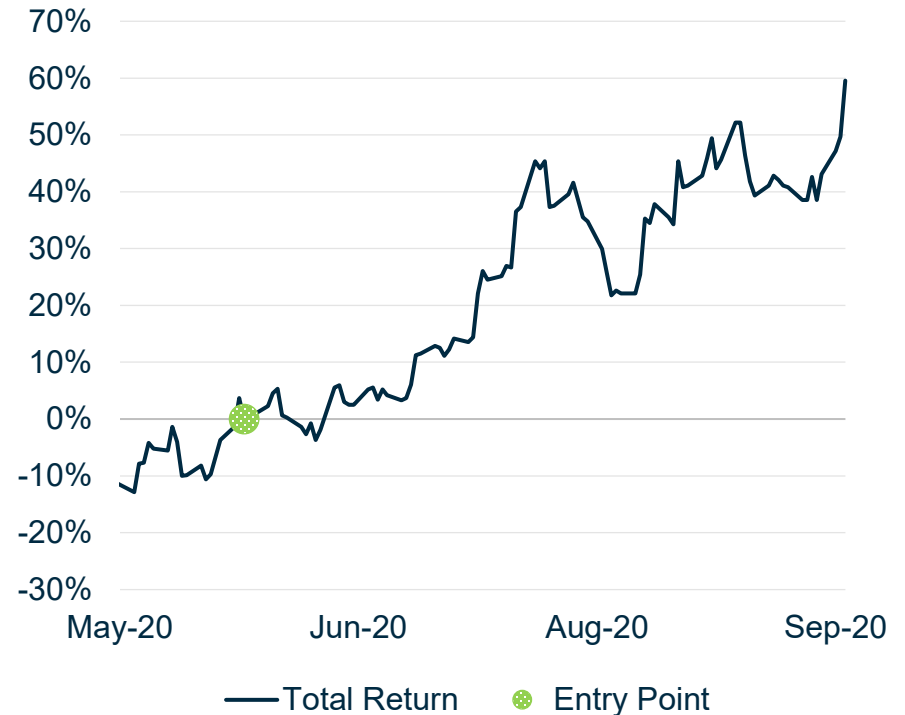
### Investment Thesis

- Company has consolidated a market leading position in their core Nordic market
- Management has dramatically improved the supply chain
- Secular growth in online consumption will drive significant organic growth over time.
- Increase in private label should drive meaningful margin expansion over time.
- Aligned management team focused on value creation

**Initial purchase May 2020**  
**Avg. buy price SEK90.56**  
**Current price SEK126.20**

## Cumulative Price Change†

Rebased to 0% at initial entry point



† Distributions are reinvested. Adjusted for any corporate actions (e.g. splits and spinoffs).

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# Q&A

## **PENGANA CAPITAL LIMITED**

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