

Australian Value Trust - Return Objectives and Investment Strategy

Pengana Australian Equities Income Fund	
Fund description	The Fund invests principally in listed Australian equities. If Pengana cannot find appropriate securities that meet its investment criteria, the Fund's assets are held in cash or cash equivalents.
Investment return objective	The Fund's investment objectives are to achieve over the medium to long term an investment return, including capital appreciation, dividends and interest, in excess of the risk free rate (i.e., the Reserve Bank of Australia's Cash Rate Target) plus a margin to compensate investors for the extra risk associated with investing in Australian equities (this is known as the "Australian equity risk premium"), and to ensure that a high component of the return is from income.
Investment approach	Pengana believes that superior research provides conviction and, if acted upon in a timely manner, can be converted into investment opportunities and excess returns. Capital preservation is preferred over supernormal returns. This is achieved through a consistent focus in the security selection process and careful management of portfolio exposure. The Fund employs research-based security selection, using fundamental company research with macro economic overlays for portfolio construction. All positions are high conviction and assessed on a risk-reward basis, resulting in a portfolio with around 20-40 securities being held.
Investment process	The Fund's Investment Team attends many company management meetings each year as an integral part of the idea generation, company valuation and portfolio management processes. Access to external research is considered a valuable resource in supplementing idea generation, understanding industries and facilitating access to company management. Pengana maintains a database of valuation models on potential and existing investment opportunities. This is supported by regular updates from the fundamental research and this forms the analysis platform for assessing the appropriate acquisition price. Pengana principally targets listed Australian companies capable of generating underlying cash earnings yields of at least 6% per annum with sustainable growth and a sufficient dividend payout ratio to support the income objective of the Fund. In addition, for capital preservation purposes, the company valuation is assessed with a margin of safety. This may be in the form of a strong underlying intrinsic asset valuation, low earnings multiple, regulated monopoly or other factors. When Pengana is unable to find investments that meet its investment strategy, surplus funds will be held in cash or cash equivalents consistent with its objective of capital preservation. The Fund may invest in securities which are not listed in Australia but are listed on an overseas stock exchange. It will only do so if Pengana determines that the security listed on the overseas stock exchange is a better investment proposition than a similar security listed in Australia.
Indicative strategic asset allocation	<p>Pengana aims to manage the Fund within the following guidelines:</p> <ul style="list-style-type: none"> • 0%-100% Australian equity securities, hybrids and listed debt • 0%-100% cash and cash equivalents • 0%-20% securities in exchange traded funds, securities which are expected to be listed within 3 months of being acquired, derivatives and securities which are not listed in Australia but are listed on an overseas stock exchange <p>Pengana will endeavour to work within the above guidelines – however these should be viewed as objectives only and not absolute limits.</p>