PENGANA
CAPITAL

PRIVATE EQUITY FACT SHEET

INVESTING IN PRIVATE EQUITY

WHAT IS PRIVATE EQUITY?

There are significantly more private companies than public companies in the world.[1] These companies do not have shares or bonds that are listed on public exchanges; instead, they frequently raise capital directly, often from private equity investment funds.

Private equity investing involves fund managers investing capital in ownership interests in private companies and pursuing an active role in their management. Managers advise and monitor the companies through restructuring, refocusing, and revitalising tactics by providing operational, governance, and strategic input. The ultimate objective is to generate a superior return for investors by selling the investment at a premium to the costs that have been incurred through this process.

Private equity investments have historically often generated higher returns and have outperformed public market equivalents across most time horizons, geographic regions and market conditions.[4]

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PRIVATE EQUITY FACT SHEET

HOW TO ACCESS PRIVATE EQUITY?

There are three main ways of accessing private equity investments:

- **Private equity primary fund investments ('Primaries')**
  An investment in a private equity fund that raises capital to invest directly into private companies to create a portfolio of companies. Primary funds typically commit capital to many underlying companies over three to four years, and are expected to continue to invest in these companies over several more years while private equity professionals seek to increase value through operating efficiencies and improvements in a private setting. These companies are nurtured over a significant period of time before typically being exited through an IPO process or acquisition. Primary fund investments typically represent the foundational allocation of a well-diversified private equity portfolio and provide forward-looking exposure to companies that will be exited in the future.
- **Private equity secondary transaction fund investments ('Secondaries')**
  An investment in a fund that purchases other private equity funds with an existing portfolio of underlying companies. Interests in secondaries are purchased from existing fund holders rather than the issuer. At the time of purchase, Secondaries are expected to have substantially completed the investment phase and have an existing portfolio of private companies for the fund manager to value. Secondaries may be potentially acquired at a discount to their current net asset values. Secondaries provide investors backward-looking diversification and greater underlying company diversification.
- **Private equity co-investments ('Co-Investments')**
  A single investment in a company alongside another private equity fund. Co-investments allow investors to gain direct exposure to unique transactions, with the potential to do so at reduced fees.

HOW DO PRIVATE EQUITY FUNDS INVEST?

Private equity managers employ different strategies in seeking to create value for their investors. These may include:

- Specialising in a sector with a team that has deep industry expertise;
- Professionalising or solving succession issues for family owned businesses;
- Restructuring, refocusing or revitalising inefficient operating companies;
- Consolidating companies operating in fragmented industries;
- Creating and developing new companies to address market opportunities; or
- Growing product offerings or expanding into new markets.

TYPES OF PRIVATE EQUITY STRATEGIES

Within private equity, different strategies may be employed for different purposes, and at different growth stages or lifecycles of the investee companies. Strategies include:

1. **Buyouts**
   Represent the acquisition of larger, more mature companies with established cash flows in which the purchase is often financed with debt, which is secured against the assets of the companies.
2. **Special Situations**
   Typically includes distressed debt and other credit investments. Distressed debt investing normally involves acquiring the debt of a distressed company in order to obtain control with regard to reorganisation or liquidation.
3. **Growth Equity**
   Early stage investing used for starting and building companies.

CHARACTERISTICS OF PRIVATE EQUITY INVESTMENTS

A few common characteristics exist:

1. **Illiquidity**

   Private equity investments are generally illiquid and should only be acquired by investors able to commit their funds for an extended period of time.
2. **J-Curve effect**

   Private equity investment funds generally levy fees based upon the investment amount that has been committed. However, it is expected to take a number of years for the fund to invest all of the committed capital and to generate a return on those investments. This may result in a negative investment return for investors during the early years of a fund's life. The manager seeks to recover the negative returns as the fund and its investments mature and investors begin to receive distributions. This pattern of early losses followed by future gains is known as the J-Curve effect.
3. **Vintage year diversification**

   Investments are typically grouped by the year in which a fund makes a first investment, the "Vintage Year". As the market and investment environment changes through time, Vintage Year benchmarking ensures that a fund's performance is measured against other funds that were launched during similar environments, and which are at a comparable point in the cash flow cycle. Obtaining exposure to different vintages is an important source of time diversification and mitigating risk to one part of an investment cycle that may impact overall performance.
4. **Investment Structure**

   Private equity funds are generally close-ended and are structured to offer limited liability to investors. These funds are often structured as limited partnerships.
5. **Performance dispersion**

   The difference between the best and worst performing investments or managers in private equity tend to be much greater than in the public markets.[2] As such, the ability to select and gain access to top-performing managers is critical in building a successful program.

CAN THE J-CURVE BE MITIGATED?

The J-Curve may be mitigated through private equity investments that accelerate the deployment of capital (such as secondaries and co-investments), investments in cash yielding short duration credit strategies, and investments into semi-seasoned private equity portfolios (i.e. those that have had initial closes and have already deployed initial capital, but which are still accepting subscriptions).

KEY ADVANTAGES, CHALLENGES, AND RISKS OF PRIVATE EQUITY

Private equity has become increasingly mainstream as many market-leading companies have chosen not to pursue public market listings. These unlisted companies have nevertheless been able to attract capital from private market investors as more and more capital is made available to them. That said, it remains a relatively illiquid asset class, although the advantages may outweigh the risks.

KEY ADVANTAGES

1. **Potential performance**

   Private equity investments have historically often generated higher returns and have outperformed public market equivalents across most time horizons, geographic regions and market conditions.[4]

2. **Portfolio diversification**

   Investments may be made into a broad range of individual companies and different securities that have historically tended to exhibit lower correlation with traditional stock and bond markets. As such, these investments may be useful in helping to diversify an investor's overall portfolio risk (see page 7 for further information).

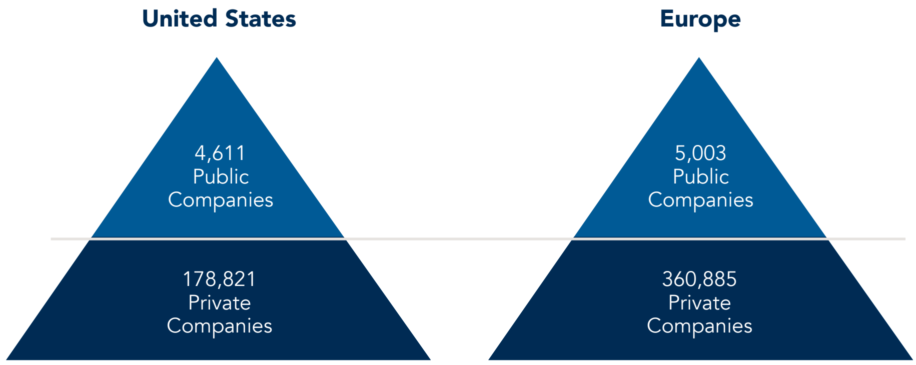
3. **Broader universe of Investment opportunities**

   The universe of private companies is significantly larger than that of public companies.[1] This share of the investment universe has been growing (possibly in response to regulations introduced during the period around the 2000s) and as capital markets have increasingly opened to private companies, many have become less inclined to seek public market listings.

HOW CAN THE CHALLENGE OF PRIVATE EQUITY ILLIQUIDITY BE ADDRESSED FOR INVESTORS?

A private equity fund listed on a stock exchange may afford investors the opportunity to exit their investments through secondary market liquidity on the ASX.[3]

Size of Private Markets Relative to Public Markets[5]



KEY CHALLENGES

Investors need to consider the following points when investing in private equity:

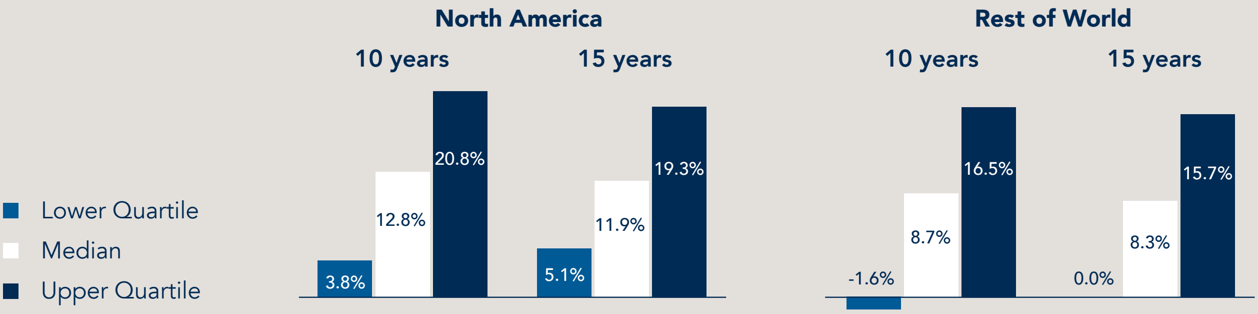
1. **Less efficient markets**

   Private markets are typically less efficient than public markets and rely on brokers to arrange transactions.

2. **Greater dependence on manager selection**

   Performance dispersion in the private equity markets tends to be much greater than in the public equity markets. As such, the ability to select and gain access to top-performing managers is critical in building a successful program.[6]

Quartile Net Internal Rate of Return (IRR) Performance, North America and Rest of World Private Equity Buyout Funds.[7]



KEY RISKS

When accessing private equity or private market investments through a fund, investors should be aware of these key risks:

1. **Lack of Portfolio Liquidity**

   Private equity funds hold securities for which there is no established market for exchange or trade. Such illiquidity risk can be exacerbated due to changes in market conditions or business prospects of the underlying companies.

2. **Debt or Leverage Risk**

   Private equity funds employ leverage in a number of ways. The use of leverage may magnify the potential gains and losses achieved by the funds. The use of leverage may also diminish the returns to the funds if the overall returns are less than the cost of borrowing.

3. **Portfolio Valuations**

   Valuations of the underlying fund investments may involve uncertainties and discretionary determinations. Third-party pricing information may not be available regarding certain asset classes, and in some circumstances funds may rely on valuation models that have been created in order to value the assets and calculate the account value. Further, the liquidation values of securities and other investments may differ significantly from the interim valuations of these investments.

4. **Concentration and performance risk**

   Funds typically make a limited number of investments. As those investments generally will involve a high degree of risk, poor performance by a few investments may severely affect the total returns generated by the fund. The Fund may be subject to wider fluctuations in value if it is non-diversified than if it was subject to broader diversification requirements.

3. **Access to Information**

   There is generally less information available about private companies than publicly listed companies. Investors with the highest quality information are often able to make the best investment decisions.

4. **Extensive Due Diligence**

   Successful investors require comprehensive resources and strong networks to conduct thorough due diligence.

5. **Careful Monitoring**

   The current challenging market environment highlights the importance of allocating resources to regularly monitored private equity portfolios.

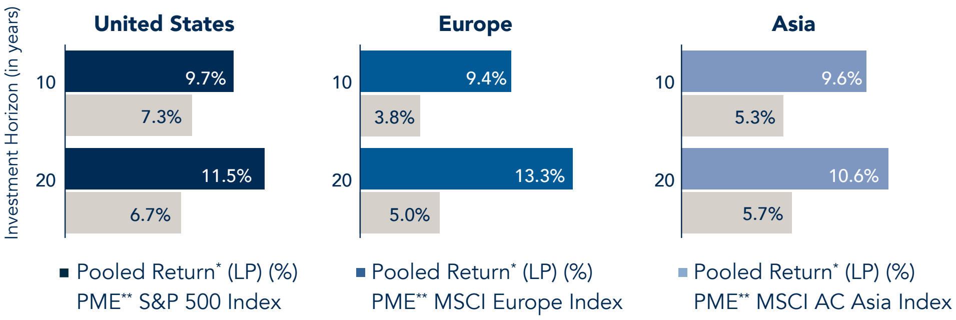
WHY INVEST IN PRIVATE EQUITY?

While the particular strategies and type of underlying assets may differ, the following attributes are generally consistent across the spectrum of private equity investments:

- **Long term value creation:** lack of short-term, public pressure may allow for a long-term investment orientation.
- **Market cycle independence:** historical performance has often been resilient across various investment environments.[4]
- **Illiquidity premium:** seek to capture illiquidity premiums associated with long-term investments.

These attributes have often resulted in compelling returns from private equity investments. For example, as shown in the charts below, historically global private equity has outperformed public market equivalents across time horizons and geographic regions.[4]

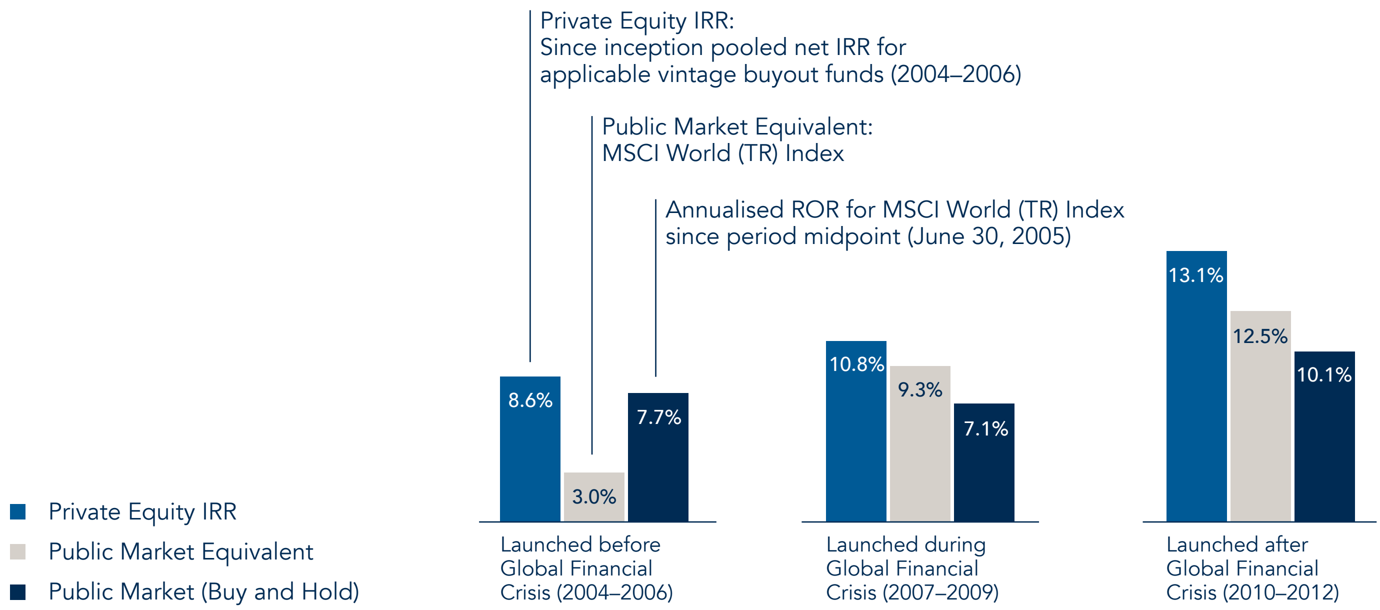
PERFORMANCE OF PRIVATE EQUITY VS PUBLIC EQUITY ACROSS TIME HORIZONS AND GEOGRAPHIC REGIONS[10]



*The overall internal rate of return
** Public Market Equivalents

Global private equity has also outperformed public market equivalents across vintages representing the year in which a fund first invested in particular, and as shown in the chart below, during periods of economic stress such as the Global Financial Crisis of 2008.

PERFORMANCE OF PRIVATE EQUITY VERSUS PUBLIC EQUITY ACROSS VINTAGES*[11]

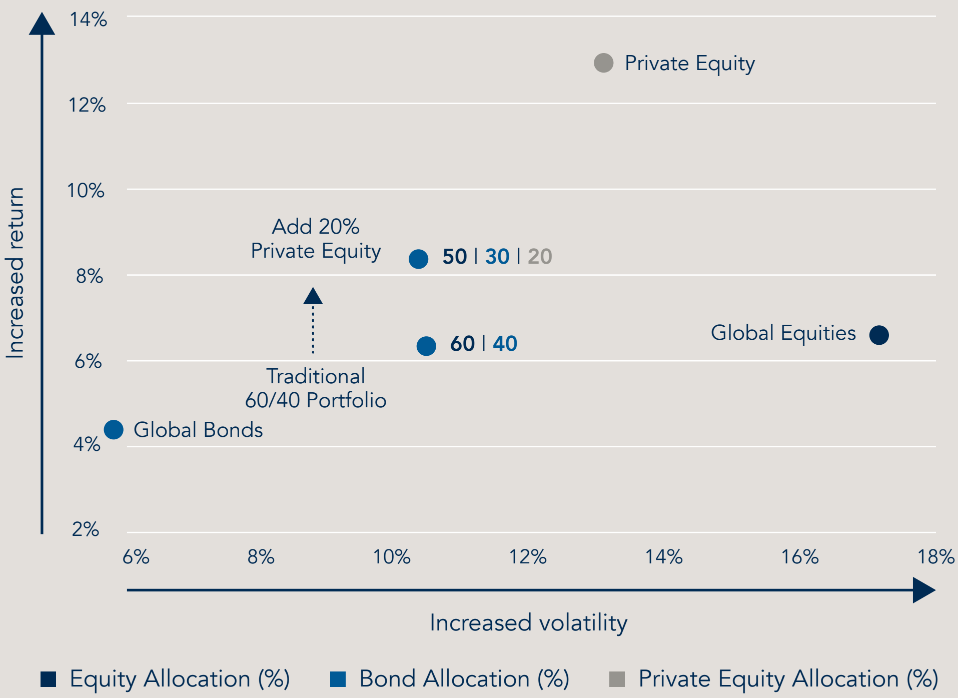


*Vintage refers to the year in which the PE fund began investing

Based on historical returns and correlations between public and private markets, private equity has the potential to deliver investors with diversification benefits when combined with traditional existing investments. For example, as shown in the chart below, moving from a traditional 60/40 equities/bond portfolio to one with a 20% allocation to global private equity, results in the portfolio generating higher returns with lower risk (as measured by volatility).

RISK VS RETURN[10]

Annualised return (%) versus annualised standard deviation (%), 20 years ending December 31, 2017



1. Source: Capital IQ as of 16 May 2018. Includes all private companies with revenues ≥ US$10 million.
2. Source: BURGISS, based on published 3Q benchmark data as of December 2017.
3. Investors should take into account liquidity risk, where the demand for a financial instrument (such as units in the Trust) at a certain price is low, which may prevent an investor from selling the financial instrument at a certain price.
4. Sources for statement regarding time horizons and geographic regions: BURGISS. MSCI. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used to create indices or financial products. This information is not approved or produced by MSCI. S&P. S&P and its third-party information providers do not accept liability for the information and the context from which it is drawn. Data as of March 2018. All data shown as net to limited partners, unless otherwise noted. Sources for statement regarding market conditions: BURGISS, MSCI. BURGISS data based on published 4Q 2017 benchmark data downloaded on June 22, 2018. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used to create indices or financial products. This information is not approved or produced by MSCI. **No assurance can be given that any investment will achieve its objectives or avoid losses. Past performance is not a reliable indicator of any future results.**
5. Source: Capital IQ as of 16 May 2018. Includes all private companies with revenues ≥ US$10 million.
6. Past performance – particularly general industry performance spanning materially different market periods – is not necessarily indicative of future results.
7. **For illustrative purposes only.** Returns represent pooled net IRRs of a broad selection of buyout private equity funds formed since the beginning of each illustrated period and thereafter. Ten-year returns are for funds formed in vintage years 2008 to 3Q 2017 and fifteen-year returns are for funds formed in vintage years 2003 to 3Q 2017. Source: BURGISS, based on published 3Q 2017 benchmark data as of December 2017.
8. No assurance can be given that any investment will achieve its objectives or avoid losses. Past performance is not a reliable indicator of future performance.
9. The public market equivalent concept allows investors to compare the performance of private equity and other private markets investments (Private Equity) to other types of investments, such as public market indices (Public Equity). The methodology assumes buying and selling a given index according to the timing and size of the cash flows between the investor and the private investment. Performing this comparison requires the construction of a hypothetical investment fund that mimics private equity cash flows. This hypothetical fund purchases and sells shares of the index at the same time the private equity vehicle calls and distributes cash. The NAV of the hypothetical fund, called the public NAV, depends on the number of shares and the share price (i.e. the index value) as of the report date. Sources: BURGISS. MSCI. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used to create indices or financial products. This factsheet is not approved or produced by MSCI. S&P. S&P and its third-party information providers do not accept liability for the information and the context from which it is drawn. Data as of March 2018. All data shown as net to limited partners, unless otherwise noted. **No assurance can be given that any investment will achieve its objectives or avoid losses. Past performance is not a reliable indicator of future performance.**
10. Data as of December 31, 2017. Source: BURGISS, MSCI. Burgiss data based on published 4Q 2017 benchmark data downloaded on June 22, 2018. "Private Equity IRR" represents pooled IRR since inception through December 31, 2017 for all buyout funds in the Burgiss Manager Universe with Vintages 2004-2006, 2007-2009 and 2010-2012. "Public Market Equivalent" returns reflect the MSCI World (TR) Index using the Long-Nickels methodology and were obtained from Burgiss. "Public Market (Buy and Hold)" represents annualised rate of return for the MSCI World (TR) Index (Ticker: GDDUWI) from the midpoint of each time period through December 31, 2017. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used to create indices or financial products. This PDS is not approved or produced by MSCI. **No assurance can be given that any investment will achieve its objectives or avoid losses. Past performance is not a reliable indicator of future performance.**
11. Portfolio calculation assumes quarterly rebalancing of stock and bond allocations. Index returns assume reinvestment of coupons. "Equity Allocation" represented by MSCI World Index, "Bond Allocation" represented by Barclays Global Aggregate Bond Index, "Private Equity Allocation" represented by Burgiss private equity pooled time-weighted returns. **Past performance is not a reliable indicator of future performance. No assurance can be given that any investment will achieve its objective or avoid losses.** Data sources: BURGISS; Barclays Bank PLC 2018; MSCI. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used to create indices or financial products. This report is not approved or produced by MSCI.

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