PENGANA INTERNATIONAL EQUITIES LIMITED (ASX: PIA)

DESCRIPTION

Pengana International Equities Limited (trading on the ASX as PIA) is the largest international ethical Listed Investment Company ("LIC") on the ASX. PIA's objective is to provide shareholders with capital growth as well as regular, reliable, and fully franked dividends.

The strategy aims to generate superior risk-adjusted returns, through investing in an actively managed portfolio of global companies that meet the investment team's high-quality and durable growth criteria at reasonable prices. A robust ethical framework provides an added layer of risk mitigation.

These companies are identified through the conduct of fundamental research, with a long-term, global perspective, and must exhibit the following four key investment criteria: competitive advantages, quality management, financial strength, and sustainable growth potential.

SHARE PRICE	NTA POST-TAX	NTA PRE-TAX	PORTFOLIO RETURN (15 YEARS)	DIVIDEND YIELD1	CONSECUTIVE QUARTERLY DIVIDENDS PAID
$1.155 Time: 11:20 am	A$ 1.276 30/04/2024	A$ 1.329 30/04/2024	10.4% p.a.	4.7% 6.2% when grossed up[2] for franking credits	14

1. Dividend yield is based on current displayed share price and dividends declared over the previous 12 months
2. Grossed up yield is based on current displayed share price, dividends declared over the previous 12 months and the tax rate and franking percentage applicable for the most recently declared dividend

COMMENTARY

- Global equity markets fell in April, reversing some of the strong gains of the March quarter.
- Inflation remains persistent across the major economies, which reduced investor expectations of early cuts in interest rates, hitting share prices.
- The Portfolio returned -4.0% in April, while the benchmark returned -3.2%.

Our investment process – Porter's Five Forces Video Series

A Framework for Competitive Strategy Analysis

The investment team at Harding Loevner, managing Pengana International Equities Limited (ASX: PIA), specialise in identifying and investing in high-quality growth companies. Their approach involves analysing industries through the renowned Five Forces framework developed by Harvard University professor Michael Porter.

In each installment of this six-part video series, Harding Loevner delves into a specific aspect of Porter's framework, discussing its application in understanding industries and the companies within them.

To gain insight into their methodology, we invite you to watch the series overview below, demonstrating how the team utilize Michael Porter's Five Forces framework for industry analysis.

For access to the entire series, please visit our dedicated page here.

PERFORMANCE TABLE

NET PERFORMANCE FOR PERIODS ENDING 30 Apr 2024[1]

	1M	1Y	5Y	15Y
Total Portfolio Return	-4.0%	18.3%	7.9%	10.4%
Total Shareholder Return	-2.1%	26.2%	7.1%	7.8%
Index	-3.2%	20.4%	12.2%	12.1%

STATISTICAL DATA

VOLATILITY[3]	NUMBER OF STOCKS	BETA[4]
12.7%	59	0.74

TOP HOLDINGS (ALPHABETICALLY)

Alphabet Inc	Communication Services	**Microsoft Corp**	Information Technology
Amazon.com Inc	Consumer Discretionary	**Netflix Inc**	Communication Services
AMETEK Inc	Industrials	**Schneider Electric SE**	Industrials
Deere & Co	Industrials	**Thermo Fisher Scientific Inc**	Health Care
Meta Platforms Inc	Communication Services	**Vertex Pharmaceuticals Inc**	Health Care

APRIL REPORT

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Market Review

Global equity markets fell back in April. This reversed some of the gains delivered in the first quarter of 2024, as signs of sticky inflation dimmed hopes that US interest rates would be cut in the near term.

Japan was the strongest performing major share market in the March quarter, but was much weaker in April. This coincided with a further decline in the value of the Japanese yen, despite efforts by its central bank to slow the depreciation of its currency.

Conversely, China – one of the weakest global share markets in the first three months of the year – bounced back in April. This was despite corporate earnings being generally disappointing and investor expectations of significant government stimulus remaining unfulfilled.

All sectors were weaker in April except for energy and utilities, which tend to be relatively more defensive during periods of share market volatility. Interest rate sensitive sectors such as real estate and information technology – which had made strong gains in the first quarter – were especially weak in April.

The most expensively valued stocks relative to earnings were hit hardest, while faster-growing and higher-quality stocks (higher profits and lower risk) also lagged the broader market.

Portfolio Commentary

The Portfolio underperformed the benchmark during April. Growth stocks underperformed value as rising interest rate expectations pushed up longer-term bond yields and therefore equity discount rates.

Strong performance by the Portfolio's holdings in industrials, overweight positions in communications services and industrials, and underweight positions in information technology and real estate boosted relative returns. However, this was offset by weaker performance by the Portfolio's holdings in healthcare and information technology and the zero weighting to utilities, which detracted from relative returns.

The Portfolio is focussed on identifying great companies through bottom-up analysis and continues to identify exciting opportunities in health care, communications services and industrials, in which it maintains overweight positions.

Several mega-tech companies including Google-owner Alphabet, Facebook-owner Meta Platforms and Microsoft announced their first quarter earnings and spending plans to build their AI capabilities. While all reported strong earnings, investor reaction to each was more varied.

Alphabet and Microsoft outperformed upon their earnings announcements. This was despite reporting large increases in capital investment over the March quarter, which surged above US$12 billion and US$14 billion, respectively. In contrast, Meta's plans to spend US$8-10 billion quarterly this year was viewed as excessive by some investors and its share price underperformed sharply.

Some investors may yet to be convinced that Meta will earn a high return on its capital outlay. However, the company should be able to apply AI tools to its unparalleled dataset which flows from over three billion daily active users on its core platforms. This should enable it to improve both the engagement levels on its social media applications and the effectiveness of its digital advertising sales. It may also provide a path to monetising additional services including the metaverse. The Portfolio continues to hold significant overweight positions in all three stocks, with the largest overweight in Meta.

The strongest contributor to relative returns during April was the overweight position in US technology group **Alphabet**. It outperformed after announcing a 15.4% year-on-year increase in revenue and a 61.5% jump in earnings per share. This pushed its market valuation above the US$2 trillion threshold.

France-based digital automation and energy management group **Schneider Electric** also outperformed in April. Its alignment to the long-term secular growth trends of digitisation, decarbonisation and manufacturing reshoring outweighed broader investor concerns regarding interest rates.

The Portfolio's holding in Japan-based **Chugai Pharmaceutical** detracted from relative returns during April. It underperformed after reporting a steep year-on-year decline in revenue, which was driven by price cuts in Japan and lower sales of Ronapreve, its COVID-19 drug.

US-based multinational professional services group **Accenture** underperformed after it revised down its financial year 2024 earnings guidance. This was due to slowing demand for its services, reflecting customers' concerns about the economic outlook.

FEATURES

ASX CODE	PIA
FEES	Management Fee: 1.23% p.a. Performance Fee: 15.38% of any return greater than the Index***
INCEPTION DATE	19 March 2004
MANDATED	1 July 2017
BENCHMARK	MSCI World Total Return Index, Net Dividend Reinvested, in A$ ("Index")
NTA POST TAX **	A$ 1.276 30/04/2024
NTA PRE TAX **	A$ 1.329 30/04/2024
PRICE CLOSE **	A$ 1.145
SHARES ON ISSUE **	257.17m
DRP **	Yes

FUND MANAGERS

Peter Baughan
Portfolio Manager

Jingyi Li
Portfolio Manager

Rick Schmidt
Portfolio Manager

1. As at the last day of last month prior to publishing of this report. Performance figures refer to the movement in net assets per share, reversing out the impact of option exercises and payments of dividends, before tax paid or accrued on realised and unrealised gains. Please refer to the PDS for information regarding risks. Past performance is not a reliable indicator of future performance, the value of investments can go up and down.
2. Inception date of PIA: 19 March 2004, new investment team with new mandate adopted: 1 July 2017. Pengana International Equities Limited has been managed under the new investment mandate by the Pengana investment team since 1 July 2017. The performance since mandated in the table above refers to the movement in net assets per share since the new mandate adopted on 1 July 2017.

3. Annualised Standard Deviation since mandated
4. Relative to MSCI World Total Return Index, Net Dividends Reinvested
**As at the last day of last month prior to publishing of this report. The figures are unaudited.
*** Index/MSCI World refers to the MSCI World Total Return Index, Net Dividends Reinvested, in A$.

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ACN 107 462 966

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