

## PENGANA AXIOM INTERNATIONAL ETHICAL FUND HEDGED

### DESCRIPTION

The Pengana Axiom International Ethical Fund (Hedged) invests in companies that are dynamically growing and changing for the better, more rapidly than generally expected and where the positive changes are not yet reflected in expectations or valuation.

The Global Equity Strategy seeks dynamic growth by concentrating its investments in global developed markets, and may also invest in companies located in emerging markets.

The investment manager is Axiom Investors, a Connecticut-based global equity fund manager formed in 1998 with over US\$19billion in assets under Management.

### STATISTICAL DATA

VOLATILITY<sup>8</sup> 0%

NUMBER OF STOCKS 48

BETA<sup>9</sup> 0.95

### PERFORMANCE TABLE

NET PERFORMANCE FOR PERIODS ENDING 30 Jun 2023<sup>1</sup>

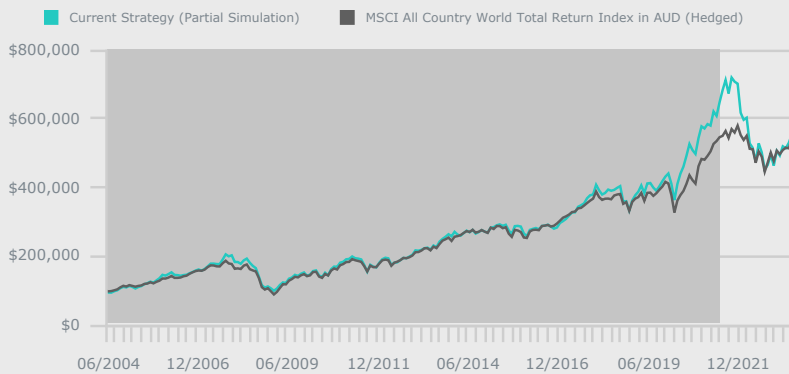
#### Pengana Axiom International Ethical Fund (Hedged)<sup>1</sup>

The Class was established in 1 July 2017. From June 2021 Axiom was appointed as the investment manager for the Fund.

	1M	1Y	Since Axiom Appointed June 2021	3Y	5Y	Since Fund Inception July 2017 <sup>3</sup>	Since Strategy Inception July 2004 <sup>4</sup>
<b>Fund: APIR (HHA0002AU)<sup>2,3</sup></b> Managed by Axiom from June 2021	4.7%	16.8%	-7.5%	-4.4%	1.8%	4.8%	6.2%
<b>Current Strategy (Partial Simulation)<sup>5</sup></b> Axiom Global Equity Strategy					6.4%	7.3%	9.2%
<b>Index (Hedged)<sup>6</sup></b>	5.3%	14.6%	-0.5%	0.5%	11.5%	8.2%	8.6%

### PERFORMANCE CHART

NET PERFORMANCE SINCE INCEPTION<sup>2</sup>



### TOP HOLDINGS (ALPHABETICALLY)

Amazon	Consumer Discretionary
Asml Holdings	Information Technology
Eli Lilly & Co	Health Care
Hermes International	Consumer Discretionary
Microsoft	Information Technology
Novo Nordisk	Health Care
NVIDIA Corp	Information Technology
ServiceNow Inc	Information Technology
Taiwan Semiconductor Manufacturing	Information Technology
Visa Inc	Financials

### SECTOR BREAKDOWN

Consumer Discretionary	16.6%
Consumer Staples	3.6%
Financials	9.8%
Health Care	18.2%
Industrials	11.1%
Information Technology	33.6%
Materials	0.6%
Real Estate	1%
Communication Services	3.1%
Cash	2.5%

### CAPITALISATION BREAKDOWN

Under 5bn USD	2.2%
In between 5bn - 10bn USD	1.8%
In between 10bn - 50bn USD	18.7%
In between 50bn - 150bn USD	24.4%
In between 150bn - 500bn USD	26.9%
Above 500bn USD	23.6%
Cash	2.5%

### REGION BREAKDOWN

North America	64.3%
Europe ex-UK	19%
Emerging Markets	5.6%
Japan	4.1%
UK	2.2%
Asia Pacific ex-Japan	2.3%
Cash	2.5%

## GLOBAL SHARE PRICES STRENGTHENED

### COMMENTARY

- Global share prices strengthened in June as slowing inflation allowed the US Federal Reserve to keep interest rates unchanged, raising hopes that the peak in rates is now close
- The Fund returned 4.7% in June, while the benchmark returned 5.3%. Over the Financial Year, the Fund returned 16.8%, outperforming the benchmark by 2.2%
- Strong stock performance in the information technology and financial sectors supported relative returns in June

Global equity markets made strong gains in June as inflation continued to fall in the US, leading the Federal Reserve to keep interest rates unchanged at 5.00% – 5.25%. The US consumer price index (CPI) fell to 4.0% year-on-year in May, from 4.9% in April.

The US dollar declined by 1.4% against its major trading currencies in June, upon more positive investor sentiment.

Global economic growth continued to moderate, as purchasing managers' data weakened slightly in the Eurozone while the contraction in US manufacturing new orders eased.

China's manufacturing activity continued to expand but the broader 're-opening' following the end of the zero-COVID policy has now slowed. Consumer spending remained sluggish around the important June public holiday, while the property market remains weak. Travel and entertainment sectors continue to support economic activity in the Asia region.

The Fund retains its focus on dynamic growth stocks as positive revisions to earnings per share (EPS) drive outperformance as the economy moves into a period of weaker overall earnings growth. The Fund continues to overweight information technology, consumer discretionary, and health care while underweighting financials, energy, and materials.

Strong stock performance in information technology and financials and an overweight position in consumer discretionary contributed to relative returns. Weak stock performance in consumer discretionary and industrials and an overweight position in health care were the main detractors.

US-based global software group **Adobe** contributed to relative returns when it outperformed after reporting strong second quarter earnings results with an unexpectedly large increase in its key Digital Media Net New Annualized Recurring Revenue metric. It also reported that its generative artificial intelligence (AI) Firefly product is already having a positive impact on revenues.

The US semiconductor developer **Nvidia** continued to outperform following earlier strong profit results as investors recalibrated its earnings growth potential. Demand from Asia for data centre graphics processing units (GPUs) continues to grow.

US-based global automotive and clean energy company **Tesla** also outperformed strongly during June. The company stands to gain royalty revenues as global auto manufacturers adopt Tesla's electrical charging system as the industry standard. It also benefitted when electric vehicle (EV) sales in China in June exceeded market expectations following continued government stimulus.

The Japanese entertainment and electronics group **Sony** detracted from relative returns during June as the broader Japanese market underperformed. **Microsoft** is progressing with its acquisition of video game publisher Activision, which is a concern given the importance of Activision's 'Call of Duty' gaming franchise to Sony's PlayStation product.

The Swiss supplier to the biotech industry **Lonza** also underperformed the market during June, due to continued high inventory levels in the global biologics market.

UK-based business services group **Rentokil** underperformed following a period of strong market outperformance due to the foreign currency impact on earnings. However, the company is expected to benefit from broader industry trends in the pest control market and incremental upside from synergies related to the Terminix acquisition.

The Fund made a significant addition to its holding in e-commerce and cloud computing group **Amazon** during June. Amazon's retail and AWS cloud computing businesses continued to strengthen during the month, so the Fund increased its exposure ahead of what should be strong second quarter earnings.

The Fund also increased its exposure to the Taiwan Semiconductor Manufacturing Company (**TSMC**), the world's largest semiconductor business. Its exposure to Generative AI – as the sole manufacturer of Nvidia's data centre GPUs – is not fully reflected in its market valuation level. TSMC's foundry utilisation levels are strengthening due to increased demand from Nvidia and other AI-related semiconductor design firms. This improvement should help offset continued weakness in personal computer and smartphone end markets, which should support earnings.

The Fund reduced its exposure to US-based multinational cosmetics company **Estee Lauder**. The expected improvement in its travel-related retail sales as China exited Covid has not materialised. Capital has been allocated to other opportunities within the consumer staples sector.

Similarly, slower economic growth and thus freight demand in North America has weighed on business trends at **Canadian National Railway**. While rail continues to gain share from other forms of transportation, consensus earnings expectations do not fully incorporate the recent economic slowdown. The position was reduced ahead of what could be disappointing earnings results in July.

The Fund established a position in **Palo Alto Networks**, which is a US-based world leader in cybersecurity products and services to global enterprises. The company has branched out of network firewalls into various cloud-based security solutions resulting in growing market share gains as it consolidates. Analysis shows significant room for earnings growth as revenue and billings continue to exceed investor expectations reflecting its high operating leverage.


A new holding was also established in e.l.f. **Beauty**, an emerging US-based cosmetics brand that has used social media exposure to gain market share, focussing on its core millennial/Generation-Z user base. These customers are digital natives and the company has tailored its marketing strategy to benefit from these trends. This has resulted in persistent positive earnings surprises. e.l.f.'s market share remains small (approximately 5%) in a highly fragmented industry and it has the potential to consistently outgrow expectations over the medium term.

During June, the company engaged with a number of company leadership teams on environmental, social, and governance (ESG) issues. The meeting with US-based pet healthcare company **Idexx Laboratories** focussed on human capital management. Given the company's diverse mix of businesses, retention of front-line employees is a key management objective.


The investment team learned that the company has partnered with Northeastern University's Roux Institute to design courses, seminars, and other learning opportunities for employees. The management team explained that access to these programs has reduced attrition in many parts of the organisation, delivering cost savings.

FEATURES	
APIR CODE	HHA0002AU
REDEMPTION PRICE	A\$ 2.4899
FEES *	Management Fee: 1.35% p.a
MINIMUM INITIAL INVESTMENT	\$10,000
FUM AT MONTH END	A\$ 45.29m
STRATEGY INCEPTION DATE	1 July 2004
BENCHMARK	MSCI All Country World Total Return in AUD (Hedged)

### FUND MANAGERS



**Bradley Amoils**  
Managing Director/Portfolio Manager



**Andrew Jacobson**  
CEO/Chief Investment Officer

1. From 4 June 2021 the capital component of the foreign currency exposure for the Fund is hedged back to Australian dollars.
  2. Axiom was appointed fund manager as of 5 May 2021. June 2021 represents the first full month of Axiom managing the Fund.
  3. Inception date 1 July 2017. Figures shown are calculated from the continuous performance of both the current and previous strategies. For performance see row labelled Fund: APIR (HHA0002AU) in the table above which is the continuous performance of both the current and previous strategies.
  4. Axiom Global Equity Strategy inception 1 Jul 2004.
  5. Prior to 1 June 2021, the Axiom Global Equity Strategy performance (labeled 'Current Strategy (Partial Simulation)' and shown in the shaded area) includes the strategy performance simulated by Pengana from the monthly gross USD returns of the Axiom Global Equity strategy. The Axiom Global Equity Strategy performance does not include the Pengana ethical screen
  6. Prior to 4 June 2021 hedged performance has been simulated by Pengana for both the Fund and Index. This was done by: 1) using 3 month rolling forwards to hedge movements in the AUD/USD spot rate, and 2) deducting the Pengana International Ethical Fund (Hedged) management fee of 1.35% p.a. from the Fund's performance.
  - From 4 June 2021, index performance is from the MSCI All Country World Total Return in AUD (Hedged). Prior to 4 June 2021, index performance is simulated from the MSCI All Country World Total Return in USD
  7. Performance for periods greater than 12 months are annualised. Net performance figures are shown after all fees and expenses, and assume reinvestment of distributions. No allowance has been made for buy/sell spreads. 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.
  8. Annualised standard deviation since inception.
  9. Relative to the MSCI All Country World Total Return in AUD (Hedged).
- \*For further information regarding fees please see the PDS available on our website.

## PENGANA AXIOM INTERNATIONAL ETHICAL FUND HEDGED

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### PENGANA.COM

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