PENGANA INTERNATIONAL EQUITIES LIMITED

# MONTHLY REPORT
SEPTEMBER 2023

## 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.

### STATISTICAL DATA

| VOLATILITY[3] | NUMBER OF STOCKS | BETA[4] |
|---|---|---|
| 11.2% | 58 | 0.84 |

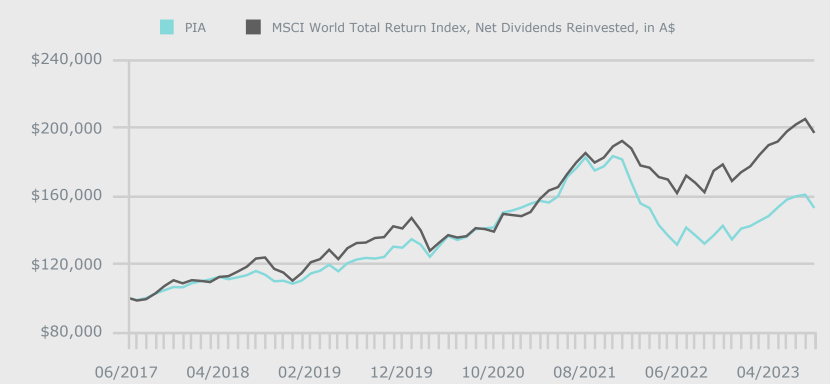
### PERFORMANCE TABLE

NET PERFORMANCE FOR PERIODS ENDING 30 Sep 2023[1]

| | 1M | 1Y | 3Y | Pengana SI July 2017[1] |
|---|---|---|---|---|
| (ASX: PIA) | -4.9% | 15.9% | 2.8% | 7% |
| Index[2] | -4% | 21.5% | 11.9% | 11.4% |

### PERFORMANCE CHART

NET PERFORMANCE SINCE INCEPTION[2]




### TOP HOLDINGS (ALPHABETICALLY)

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

### SECTOR BREAKDOWN

| | |
|---|---|
| Consumer Discretionary | 7.6% |
| Consumer Staples | 4.1% |
| Financials | 8.3% |
| Health Care | 22.1% |
| Industrials | 19.7% |
| Information Technology | 20.3% |
| Materials | 1.1% |
| Real Estate | 1.2% |
| Communication Services | 12.2% |
| Cash | 3.5% |

### CAPITALISATION BREAKDOWN

| | |
|---|---|
| Under 5bn USD | 1.5% |
| In between 5bn - 10bn USD | 2.3% |
| In between 10bn - 50bn USD | 21% |
| In between 50bn - 150bn USD | 29.7% |
| In between 150bn - 500bn USD | 25.5% |
| Above 500bn USD | 16.5% |
| Cash | 3.5% |

### REGION BREAKDOWN

| | |
|---|---|
| North America | 68.6% |
| Europe ex-UK | 14.3% |
| Emerging Markets | 6.1% |
| Japan | 4.9% |
| UK | 1.9% |
| Asia Pacific ex-Japan | 0.9% |
| Cash | 3.5% |

# SEPTEMBER REPORT

## COMMENTARY

- Global share markets continued to weaken during September as long-term bond yields increased and the economy slowed.
- Growth stocks underperformed the broader market and interest rate sensitive stocks such as information technology and real estate were particularly weak.
- The Portfolio returned -4.9% in September, while the benchmark returned -4.0%.

### Market Review

The global equity market sell-off which began in August continued through September. The US share market performed particularly poorly after continued strong economic data led the Federal Reserve to declare that it may need to keep interest rates higher for longer.

This pushed up ten-year US Treasury yields to levels not seen since 2007, denting the appeal of equities. The sectors most sensitive to rising interest rates, such as information technology and real estate, underperformed the most.

Japan's stock market declined nearly 2% but was the strongest-performing region. The Tokyo Stock Exchange's January drive to reform capital allocation at companies with lowly valued shares continued to capture investor and management attention.

Meanwhile, hints from the new Bank of Japan Governor Kazuo Ueda that the country's two-decade-long zero interest rate policy may soon be at an end further fuelled market sentiment.

### Portfolio Commentary

The surge in long-term global bond yields last month drove an equity market switch out of growth stocks – which are more sensitive to changes in yields – and into value stocks. This led global growth stocks to underperform value by around 2.7% during September. The Portfolio underperformed its benchmark but by a smaller margin of 0.9%.

Despite the increasing political and regulatory challenges, the immense size and growth potential of China's economy makes it a critical market for many global businesses.

L'Oréal's operations in China have been robust over the past two years, as its consumer products revenue has grown three times as fast as the overall mainland China market. Strategic brand introductions and gradual expansion into lower-tier cities have boosted its luxury unit, which now has a larger share of China's market than its two largest competitors combined. L'Oréal's local management team has also been agile in reacting to changing market conditions.

When China reopened from COVID-19 lockdowns at the start of the year, the company cut its social media marketing spending. It had found that its strategy wasn't as effective as it had hoped in what was proving to be a difficult market. However, it subsequently stepped-up media spending decisively when demand accelerated in the second quarter of this year.

L'Oréal's flagship brand has also enjoyed success on TikTok and is leveraging its expertise to boost the performance of other brands, in both China as well as in adjacent Southeast Asian markets.

Hong Kong-based insurer AIA Group declined as negative investor sentiment in China impacted the broader share market. AIA also reported a slower than anticipated rebound in new business margins following the easing of pandemic-era restrictions.

Stock performance was positive within the consumer staples sector. The Portfolio's holdings in US-based retail company Costco and UK-based consumer health company Haleon both contributed to relative returns.

Stock performance in the Portfolio's European holdings detracted from relative performance, particularly French luxury goods company Kering which owns Gucci and other leading brands. Share prices of luxury goods companies broadly declined as investors grew concerned that demand from Chinese, US, and European consumers may slow in 2024.

## FEATURES

| | |
|---|---|
| ASX CODE | PIA |
| FEES | Management Fee: 1.23% p.a.<br>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") |
| PRICE CLOSE ** | A$ 1.000 |
| SHARES ON ISSUE ** | 257.12m |
| DRP ** | Yes |

## FUND MANAGERS

**Peter Baughan**
**Portfolio Manager**

**Jingyi Li**
**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

**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$.

## PENGANA INTERNATIONAL EQUITIES LIMITED (ASX: PIA)


### PENGANA INTERNATIONAL EQUITIES LIMITED

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Authorised by: Paula Ferrao, Company Secretary.