

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

VOLATILITY⁸ 15.2%

NUMBER OF STOCKS 46

BETA⁹ 0.96

PERFORMANCE TABLE

NET PERFORMANCE FOR PERIODS ENDING 31 Jan 2024¹

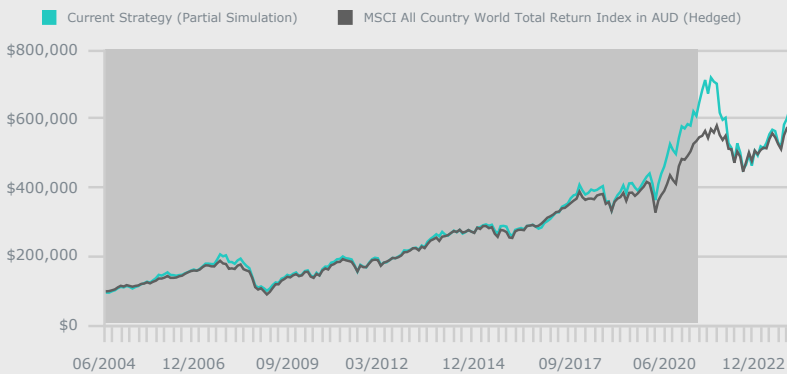
Pengana Axiom International Ethical Fund (Hedged)¹

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 ³	Since Strategy Inception July 2004 ⁴
Fund: APIR (HHA0002AU)^{2,3} Managed by Axiom from June 2021	5.1%	24.6%	1.1%	1.4%	1.6%	7.9%	7.7%
Current Strategy (Partial Simulation)⁵ Axiom Global Equity Strategy					3.3%	11.8%	10.5%
Index (Hedged)⁶	1.2%	14.3%	2.4%	3.1%	6.5%	10.1%	8.9%

PERFORMANCE CHART

NET PERFORMANCE SINCE INCEPTION²



TOP HOLDINGS (ALPHABETICALLY)

Adobe Inc	Information Technology
Alphabet Inc	Communication Services
Amazon.com Inc	Consumer Discretionary
Eli Lilly & Co	Health Care
Microsoft Corp	Information Technology
Novo Nordisk A/S	Health Care
NVIDIA Corp	Information Technology
ServiceNow Inc	Information Technology
Taiwan Semiconductor Manufactu	Information Technology
Visa Inc	Financials

SECTOR BREAKDOWN

Consumer Discretionary	15.5%
Consumer Staples	3.6%
Financials	7.6%
Health Care	14.1%
Industrials	6.8%
Information Technology	42.1%
Real Estate	1.2%
Communication Services	8%
Cash	1.1%

CAPITALISATION BREAKDOWN

Under 5bn USD	0.8%
In between 5bn - 10bn USD	1.2%
In between 10bn - 50bn USD	11.5%
In between 50bn - 150bn USD	25.6%
In between 150bn - 500bn USD	26.4%
Above 500bn USD	33.5%
Cash	1.1%

REGION BREAKDOWN

North America	73%
Europe ex-UK	14.9%
Emerging Markets	4.8%
Japan	5.4%
Asia Pacific ex-Japan	0.9%
Cash	1.1%

GLOBAL EQUITY MARKETS MAINTAIN UPWARD TREND

COMMENTARY

- Falling inflation and expectations of lower interest rates later this year helped global equities perform strongly in January, with growth stocks doing particularly well.
- The US economy remains strong, giving rise to hopes of a soft landing, while Europe is struggling and China faces significant economic challenges.
- The Portfolio returned 5.1% in January, while the benchmark returned 1.2%.

Global equity markets maintained the upward trend of the previous two months in January as inflation continued to moderate. This raised hopes that interest rates will start to fall in the first half of this year, helping growth stocks to outperform value. US economic activity remains robust, increasing investor expectations of a soft landing.

Inflation continues to slow around the world. In the US, the Core Personal Consumption Expenditure (PCE) Price Index, a metric closely watched by the Federal Reserve, (Fed), fell to 2.9% year-on-year in December from 3.2% in November. Increasing geo-political risk and superior US growth prospects pushed the US dollar 1.9% higher against a basket of its key trading partners' currencies in January.

Economic activity remains mixed. The US labour market and consumer remain resilient, with December retail sales accelerating to 5.6%, while they fell a further 0.8% in Europe where economic indicators are still consistent with contraction.

China's broader economy remains weak as it faces worsening deflation. Consumer spending is sluggish and the highly leveraged property sector remains a drag on economic growth, although the manufacturing sector continues to show signs of limited expansion.

The Fund retains its focus on dynamic growth stocks, where positive revisions to earnings per share (EPS) drive outperformance as global economic growth moderates. The Fund continues to overweight information technology, consumer discretionary and health care, while underweighting financials, energy and materials.

Strong stock performance in the information technology, consumer discretionary and health care sectors, the overweighting to information technology and the underweighting to materials contributed to relative returns. Slightly weaker stock selection in financials and the overweight position in consumer discretionary detracted modestly.

US-based semiconductor developer **Nvidia** was the strongest performing holding in January. This reflects robust AI server demand and the company's increased production of its graphics processing units (GPUs). Many of its customers expect to increase investing in GPUs, as they build out their AI capabilities. Axiom's research continues to indicate that demand for data centre GPUs is far outstripping supply.

US enterprise software company **ServiceNow** outperformed after reporting another strong quarter of subscription growth. It delivered initial 2024 earnings guidance, which appears to offer upside potential. Customers are willing to pay higher prices for superior products enhanced by generative AI, which should further drive earnings growth.

Taiwan-based advanced chip manufacturer **TSMC** outperformed after reporting fourth quarter earnings, which exceeded investor expectations. The company continues to benefit from increasing demand, driven by generative AI innovation and the recent rundown in PC and smartphone inventory levels.

US-based luggage manufacturer and retailer **Samsonite** underperformed further in January upon weakness in the China travel market. Similarly, Hong Kong-based pan-Asia life insurer **AIA Group** also detracted from relative returns upon continued concerns that economic activity in China continues to slow.

Dutch technology group **ST Microelectronics** underperformed after reporting modestly disappointing December quarter earnings results as industrial-related customers continued to run down their inventory levels. Forward earnings guidance was also below market forecasts as the company now expects the rebound in the industrial end market to be delayed until the second half of this year.

The Fund increased its position in Dutch supplier to manufacturers of advanced semiconductors **ASML** in January. This followed strong earnings results as new orders for its extreme ultraviolet lithography (EUV) photolithography machines came in well ahead of even the highest expectations. This implies that medium-term revenue and earnings forecasts are too low.

The Fund significantly increased its position in Facebook-owner **Meta Platforms**, ahead of it announcing its December quarter earnings results. Axiom's analysis of advertising spending over the quarter revealed it would be well ahead of consensus expectations. This proved accurate, with fourth quarter results and forward guidance exceeding market expectations and Meta unexpectedly announced it would begin paying a quarterly dividend.

The Fund increased its holding in the US-based provider of corporate uniforms and related business services **Cintas**, after it published strong quarterly earnings results and forward guidance. Its idiosyncratic growth strategy continues to gain momentum.

The Fund reduced its position in US-based global technology group **Apple**. Demand for new iPhones remains weak and the market valuation now fully reflects Axiom's medium-term outlook on the company.

The position in **Eli Lilly** was reduced, as the Fund realised some of its recent strong outperformance. Axiom's expectations for the earnings growth which is being driven by the company's obesity drugs are now beginning to be reflected in the market valuation level.

The Fund also continued to significantly reduce the position in US-based global automotive and clean energy company **Tesla** ahead of its quarterly results. Recent reductions in selling prices and a multitude of negative auto industry data points highlighted slower global demand for electric vehicles.

The Fund established a new position in US-based **Netflix**, the dominant Subscription Video on Demand (SVOD) streaming platform. The crackdown on password sharing across the globe is expected to drive near-term earnings growth. In the medium-to-long-term, its recently launched Advertising-based Video on Demand (AVOD) offering and ongoing pricing promotions are expected to grow earnings. After spending US\$17 billion on content in 2024, this amount is now expected to plateau, which should create the opportunity to grow profits as revenue continues to grow above 10% annually.

The Fund exited its position in US-based business advisory firm **FTI Consulting** in favour of investment opportunities which offer more attractive earnings growth. US macroeconomic data continues to be more robust than forecast, which makes FTI's core restructuring consulting business a less attractive hedge against a slowing economy.

The investment team followed-up its prior engagement with **Meta Platforms**, which discussed environmental, social and governance (ESG) issues. The meeting discussed new social initiatives which the company is progressing that may not be fully understood by the market. It is incorporating social metrics into executive pay relating to internet privacy, safety and security and is also improving transparency.

The team also engaged with the US-based global cybersecurity company **Palo Alto**. The company does not plan to purchase any carbon offsets, credits or unbundled renewable energy certificates (RECs) to meet its carbon goals. It intends to move to using 100% renewable electricity and is already partnering with suppliers and customers to encourage them to ensure this happens across the entire value chain.

FEATURES

APIR CODE	HHA0002AU
REDEMPTION PRICE	A\$ 2.8314
FEES *	Management Fee: 1.35% p.a
MINIMUM INITIAL INVESTMENT	\$10,000
FUM AT MONTH END	A\$ 45.13m
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

PENGANA CAPITAL LIMITED

ABN 30 103 800 568

AFSL 226566

CLIENT SERVICE

T: +61 2 8524 9900

F: +61 2 8524 9901

E: clientservice@pengana.com



PENGANA.COM

Pengana Capital Limited (ABN 30 103 800 568, AFSL 226566) ("Pengana") is the issuer of units in the Pengana Axiom International Ethical Fund (Hedged) (ARSN 098 586 282) (the "Fund"). A product disclosure statement for the Fund is available and can be obtained from our distribution team or website. A person should obtain a copy of the product disclosure statement and should consider the product disclosure statement carefully before deciding whether to acquire, or to continue to hold, or making any other decision in respect of, the units in the Fund. This report was prepared by Pengana and does not contain any investment recommendation or investment advice. This report has been prepared without taking account of any person's objectives, financial situation or needs. Therefore, before acting on any information contained within this report a person should consider the appropriateness of the information, having regard to their objectives, financial situation and needs. Neither Pengana nor its related entities, directors or officers guarantees the performance of, or the repayment of capital or income invested in, the Fund.