PENGANA INTERNATIONAL EQUITIES LIMITED

MONTHLY REPORT
MARCH 2022

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, that exists 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 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]
10.1%	70	0.77

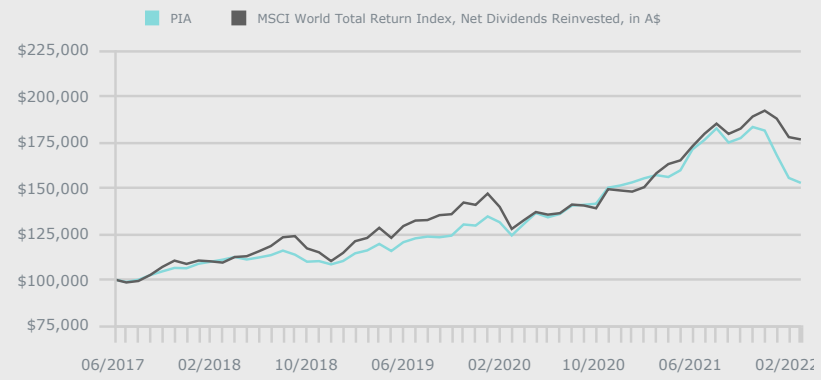
PERFORMANCE TABLE

NET PERFORMANCE FOR PERIODS ENDING 31 Mar 2022[1]

	1M	1Y	3Y	Pengana SI July 2017[1]
(ASX: PIA)	-1.8%	-2.7%	9.6%	9.3%
Index[2]	-0.7%	11.7%	12.9%	12.7%

PERFORMANCE CHART

NET PERFORMANCE SINCE INCEPTION[2]



TOP HOLDINGS (ALPHABETICALLY)

Alphabet Inc	Communication Services
Amazon	Consumer Discretionary
Deere & Co	Industrials
First Republic Bank	Financials
Meta Platforms Inc	Communication Services
Microsoft	Information Technology
Schneider Electric SE	Industrials
SVB Financial Group	Financials
UnitedHealth Group Inc	Health Care
Vertex Pharmaceuticals Inc	Health Care

SECTOR BREAKDOWN

Consumer Discretionary	7.7%
Consumer Staples	1.6%
Financials	13.6%
Health Care	24.4%
Industrials	14%
Information Technology	23.2%
Real Estate	1.1%
Communication Services	11.3%
Cash	3.1%

CAPITALISATION BREAKDOWN

Under 5bn USD	2.2%
In between 5bn - 10bn USD	1.5%
In between 10bn - 50bn USD	29.4%
In between 50bn - 150bn USD	29.1%
In between 150bn - 500bn USD	19.8%
Above 500bn USD	14.9%
Cash	3.1%

REGION BREAKDOWN

Australia/New Zealand	0.8%
North America	61.6%
Europe ex-UK	14.1%
Emerging Markets	13.6%
Japan	3%
UK	1.7%
Asia Pacific ex-Japan	2%
Cash	3.1%

A CHALLENGING ENVIRONMENT FOR QUALITY GROWTH MANAGERS

COMMENTARY

The Portfolio fell -1.8% in March, compared to the Index which fell -0.7% for the same period.

The Company seeks to invest in a global portfolio of high quality and rapidly growing companies at reasonable prices. In a quarter during which investors fled from growth companies, our portfolio experienced significant underperformance. Unfortunately, our focus on quality businesses further detracted from returns as the highest quality companies also underperformed the lowest quality companies through the quarter.

The worst performing holdings in our portfolio this quarter were concentrated in the healthcare and technology sectors, which have historically provided rich investment opportunities. Notwithstanding the current headwinds we expect them to continue to do so for the foreseeable future.

Within healthcare, **Sysmex**, a leading Japanese provider of haematology (blood testing) equipment, reported disappointing sales in China, as sales were impacted by the country's "Buy China" policy initiative setting targets for locally sourced goods. **Align Technology**, the foremost global provider of clear dental aligners and dental scanning equipment, warned that rising Omicron cases would suppress first-quarter 2022 growth. We remain extremely positive on Align's business model and do not believe that the current challenges detract from their longer-term prospects. **Wuxi Biologics** has a very strong franchise and reported exceptional earnings and pipeline growth, but has been caught up in geopolitical tensions between the US and China. We do not expect these tensions to have a long-term impact on the business itself but are watching them closely as they seek to navigate this additional complexity.

The negative performance in healthcare was partially offset by **Vertex Pharmaceuticals**, which announced continued progress on its pipeline, even as competitors' efforts to develop alternatives to the company's market-leading cystic fibrosis drug came up short. **Vortex** was one of the biggest laggards in our portfolio for the 12 months ending October 2021 however our conviction in the business model was not undermined by market perception and we have been rewarded with a 40% share price return between November 2021 and March 2022.

Within IT, **PayPal** withdrew its target to reach 750 million users, acknowledging increased churn and a pattern of new users only seeking promotions. **EPAM**, a US-incorporated IT services consulting firm staffed mostly out of Ukraine and Belarus, plunged as the Russian invasion unfolded. We sold our shares in EAPM within the first days of the invasion.

Meta Platforms (aka Facebook) reported a disappointing set of results and, significantly, its first net decline in active users as their core business faces increasing competition, particularly from TikTok. However, it remains extremely cash generative and continues to innovate and expand its offering which we believe will fend off competition and support the next stage of growth. Other detractors within Communication Services included **Pinterest** and **Netflix**, both of which are finding it hard to sustain the extremely rapid growth they enjoyed over the past two years of pandemic lockdown and social distancing.

Perspectives

The performance of our strategy has been poor since November of last year. We expected surging demand for consumer durables to revert to trend as economies reopened from COVID constraints and supply chains normalised. But ongoing bottlenecks, exacerbated by congestion at US ports, and rolling lockdowns in China's industrial heartland, have led to lingering shortages for key components across many industries and prolonged existing inflation effects. The price pressures have been amplified by the commodity price spikes stemming from the Ukraine conflict, with knock-on effects for monetary policies and equity discount rates leading to underperformance of the fastest-growing 20% of the market, from which we've drawn 40% of our portfolio.

The implications of today's headlines are ominous for such vital sectors as semiconductors, pharmaceuticals, and electric vehicles along with certain critical minerals and materials, as firms and countries scramble to insulate themselves from potential disruption. China has been clear about its long-term goal to sustain its growth by expanding its technological prowess, and is investing heavily in basic research to achieve its objectives. Similarly, the US and other Western countries are seeking ways to reduce their reliance on Chinese sources for critical inputs. Companies trying to do business across these rival camps are vulnerable to further fracturing of established global trading patterns. But this scenario is not necessarily a cause for doom and gloom for every firm. It would create opportunities, for example, for those that enable industrial companies to increase the resiliency of their supply chains, through onshoring certain operations or setting up facilities close to their customers (as in the case of Wuxi discussed above). At the very least we expect to see businesses reassess their assumptions about access to low-cost transportation, cheap foreign labour, and business-friendly social and tax policies, and, where necessary, take steps to withstand supply disruptions or unanticipated regulatory shifts. The Russian attack may also have the unintended consequence of accelerating the energy transition, by making Western industrialised nations reduce their dependence on and support for unpalatable regimes.

Over the last 20 years we've experienced four other episodes when our quality-growth style has significantly underperformed. The most recent was in December 2018 when the Trump trade war and rising interest rates delivered a shock remarkably similar to the one experienced today and which also contributed to a broad retreat from the faster growing business. It's too soon to tell if the current hiking cycle will prove equally short-lived, and given today's potent mix of macroeconomic and geopolitical uncertainties, investors are facing an unusually wide range of potential outcomes. In a scenario of continued high inflation and sharply rising interest rates, shares of quality-growth companies will probably continue to lag the market; but, should inflation moderate and economic growth revert to a more tepid pace, we would expect to see a reversal of their recent underperformance as the market embraces companies growing their earnings faster than average. **In the face of this uncertainty, we do what we have done for the last three decades: construct a diversified portfolio of high-quality growth companies by taking advantage of the most attractive valuations as they emerge.**

FEATURES

ASX CODE	PIA
FEES	Management Fee: 1.23% p.a. Performance Fee: 15.38% of any return greater than the MSCI World***
INCEPTION DATE	19 March 2004
MANDATED	1 July 2017
BENCHMARK	MSCI World Total Return Index, Net Dividend Reinvested, in A$
NTA POST TAX **	A$ 1.271
NTA PRE TAX **	A$ 1.270
PRICE CLOSE **	A$ 1.220
SHARES ON ISSUE **	255.73m
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. 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. The index is the MSCI World Total Return Index, Net Dividends Reinvested, in A$.3. Annualised Standard Deviation since mandated
4. Relative to MSCI World
**. As at the last day of last month prior to publishing of this report. The figures are unaudited.
***. MSCI World refers to the MSCI World Total Return Index, Net Dividends Reinvested, in A$.

PENGANA INTERNATIONAL EQUITIES LIMITED (ASX: PIA)

PENGANA INTERNATIONAL EQUITIES LIMITED

ACN 107 462 966

MANAGED BY PENGANA INVESTMENT MANAGEMENT LIMITED

PART OF THE PENGANA CAPITAL GROUP

AFSL 219462

CLIENT SERVICE

T: +61 2 8524 9900

F: +61 2 8524 9901

E: clientservice@pengana.com

PENGANA.COM/PIA

Authorised by: Paula Ferrao, Company Secretary.