PENGANA INTERNATIONAL EQUITIES LIMITED

MONTHLY REPORT
MAY 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, 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] 11.3%	NUMBER OF STOCKS 60	BETA[4] 0.83

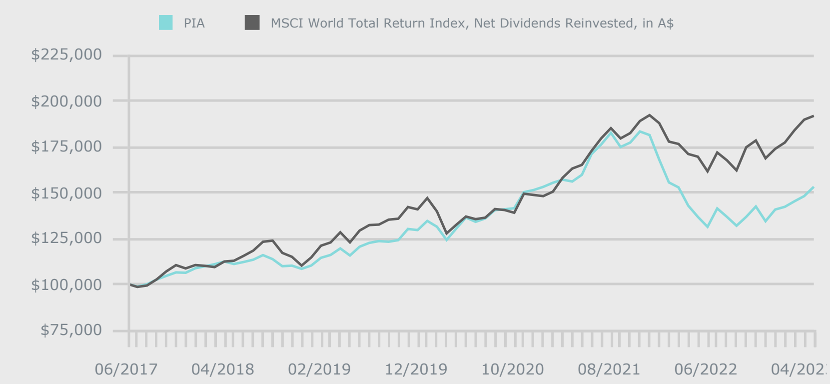
PERFORMANCE TABLE

NET PERFORMANCE FOR PERIODS ENDING 31 May 2023[1]

	1M	1Y	3Y	Pengana SI July 2017[1]
(ASX: PIA)	3.4%	12%	3.9%	7.5%
Index[2]	1.1%	13.1%	11.9%	11.6%

PERFORMANCE CHART

NET PERFORMANCE SINCE INCEPTION[2]



TOP HOLDINGS (ALPHABETICALLY)

Alphabet Inc	Communication Services
Amazon	Consumer Discretionary
AMETEK Inc	Industrials
Bank Central Asia Tbk PT	Financials
Deere & Co	Industrials
Meta Platforms Inc	Communication Services
Microsoft	Information Technology
Schneider Electric SE	Industrials
Synopsys Inc	Information Technology
Vertex Pharmaceuticals Inc	Health Care

SECTOR BREAKDOWN

Consumer Discretionary	6.3%
Consumer Staples	4.3%
Financials	10.7%
Health Care	20.5%
Industrials	18.2%
Information Technology	23.2%
Materials	0.9%
Real Estate	0.3%
Communication Services	10.8%
Cash	4.8%

CAPITALISATION BREAKDOWN

Under 5bn USD	2.1%
In between 5bn - 10bn USD	0.6%
In between 10bn - 50bn USD	20.9%
In between 50bn - 150bn USD	31.5%
In between 150bn - 500bn USD	24.3%
Above 500bn USD	15.8%
Cash	4.8%

REGION BREAKDOWN

North America	58%
Europe ex-UK	21%
Emerging Markets	8.9%
Japan	4%
UK	2.2%
Asia Pacific ex-Japan	1.1%
Cash	4.8%

MAY REPORT

COMMENTARY

• The Portfolio returned 3.4% in May, while the benchmark returned 1.1%
• Global share markets weakened in May as macro-economic concerns outweighed investor enthusiasm for the opportunities emerging in AI
• Australian dollar weakness contributed to share market returns in AUD terms

Market Review
Global markets were slightly weaker in local currency terms in May. Macroeconomic worries during the month outweighed investor enthusiasm for companies exposed to generative Artificial Intelligence (AI) growth opportunities. The MSCI World Total Return Index AUD delivered 1.1% during the month.

Share prices of semiconductor companies soared 18% in May. This followed US-based chip developer NVIDIA announcing plans to dramatically increase production to meet surging demand for its advanced graphics processing unit (GPU) chips used to power AI applications.

In contrast, most other sectors weakened, with energy and materials sectors underperforming as commodity prices plummeted.

Declining manufacturing activity and service sector growth in China reversed the economic momentum seen since the COVID-19 lockdowns ended late last year. Concerns about economic deceleration also impacted European share markets, while the tech rally boosted US stocks and Japan edged higher despite rising inflation.

Portfolio Commentary
The Portfolio benefitted in May from its overweight exposure to information technology and communication services. These sectors outperformed the broader market as investors focussed on opportunities that AI is expected to deliver.

In addition, the Portfolio's largest active weight is in health care where, as in the tech sectors, secular growth trends and innovation create opportunities but also attract competition. The Portfolio holds several biotech companies, a segment traditionally characterised by weak profitability. However, strong research and development by companies in the Portfolio has helped generate strong cash flows. This has been achieved by developing next-generation treatments that meaningfully improve the standard of patient care ahead of competitors. High levels of trust in established brands enables these first movers to capture new markets, delivering early commercial success. These factors contributed to the Portfolio's health care positions outperforming during May.

US-based biopharmaceutical group **Vertex Pharmaceutical**'s new triple-combination therapy is extending its dominance in the treatment of cystic fibrosis. US pharmaceutical company **AbbVie**, a leader in arthritis treatment, known for its blockbuster Humira antibody, has also developed next-generation products Rinvoq and Skyrizi (which are also used to treat psoriasis).

The Portfolio's information technology and communication services holdings outperformed due to strong exposure to the potential earnings growth which AI innovation is expected to deliver. US-based chip design software company **Synopsys** is expected to compound its strong earnings results with an acceleration in revenue growth. Shares of US-based semiconductor and infrastructure software developer **Broadcom** rose upon expectations of rapid demand growth for its customised AI chips.

The Portfolio's consumer discretionary holdings underperformed as returns in the sector were dominated by auto stocks, especially Tesla, which were not held in the Portfolio.

Stock selection was strongest in the US. Streaming and production company **Netflix** outperformed after the company disclosed strong subscriber growth in its advertising-supported service. Google-owner **Alphabet**'s share price increased after the company highlighted multiple AI initiatives at its developer conference on 10 May.

The Portfolio benefitted from its underweight positions in energy, materials, consumer staples and financials, which all underperformed during the month.

<u>Additional Commentary</u>
Last month we invited shareholders to engage with us and ask any questions in relation to the Portfolio, current economic environment, or any other items related to PIA. In this month's newsletter, we have published a response to the commonly occurring themes, questions and comments from shareholders. We believe this information will be useful for all PIA shareholders and anyone considering investing in the company.

We would also like to thank all shareholders who took the time to respond to us, we very much appreciate it when shareholders take the time to engage.

Structured for Diversification, Income and Growth

Pengana International Equities Limited (ASX: PIA) is a listed investment company (LIC) which aims to provide shareholders with capital growth over the long term, as well as a reliable, fully franked dividend income, paid quarterly. A robust responsible investment framework provides an added layer of risk mitigation.

The LIC structure puts PIA in a very unique position to pay fully franked dividends through investing in a diversified portfolio of global companies that meet the investment manager's high quality and durable growth criteria at reasonable prices.

Notably, PIA has sustained its quarterly dividend payments even in challenging periods, such as during the 2020 pandemic when many companies cut dividend payments.
Moreover, because PIA is subject to Australian tax, franking credits, which are particularly valuable to many income focused investors, are attached to its dividends.

PIA has paid consistent, quarterly, fully franked dividends, which have increased over time. The current cash yield is 5.5% or 7.3% when grossed up for franking credits.

The benefits and tailwinds of PIA's LIC structures

- The attractive dividends that investors have come to expect from Australian companies are under pressure from three separate, and menacing, threats:
    - High inflation,
    - Rising interest rates
    - Slowing economic growth
- Over 80% of dividends paid from Australian companies come from just four sectors of the economy (materials, financials, real estate and energy), forcing many income-oriented investors to be highly concentrated in industries with significant sustainability challenges.
- The share prices of these companies are exceedingly sensitive to dividend payments, (potentially leaving them under further pressure if dividends falter).

Many income investors have effectively been forced to choose between appropriately diversifying their equity exposure and meeting their income requirements with potentially overvalued (and in some cases unsustainable) shareholdings in a concentrated portfolio of companies.

- The LIC structure of PIA provides the company with more control over the distribution of taxable income compared to traditional unit trusts. This is because there is no requirement to pay out all taxable income to investors at the end of each financial year. This provides a listed investment company with the flexibility to smooth dividend payments to investors from year to year. PIA's shareholders are able to:

1. **Gain exposure to a professionally managed and diversified portfolio of high-quality and growing global businesses, and**
2. **Receive a fully franked dividend, paid quarterly, which currently equates to a yield of approximately 7.3% when grossed up for franking credits.**

- As interest rates rise and commodity prices fall, rising costs and falling revenues are now squeezing the profits of many Australian companies, which is starting to impact their ability to sustain high dividends. **We believe this will provide significant support to PIA as a differentiated, ASX-listed, source of reliable fully franked dividends.**

You can read more about the risks of an overconcentrated Australian income portfolio here or here.

Investment Strategy

Investing in a portfolio of international shares provides Australian investors with a more diversified mix of companies than is available in our home market. While Australia has some great mining, banking, energy, and real estate businesses, these segments represent a small part of the global stock market.

Investing in international shares provides exposure to exciting opportunities in areas such as technology (artificial intelligence), industrials (manufacturing automation as production is onshored), and health care (new drugs to treat life-threatening conditions) that are simply not available in the local market. Increased diversification generally provides greater stability of earnings across the portfolio.

The Portfolio has been managed by the highly experienced New Jersey-based Harding Loevner team since May 2021. Harding Loevner currently manage over US$50bn in global shares. The strategy has been tried and tested through many different market cycles and economic environments since it was first implemented in 1989.

The strategy has shown that bottom-up investing in high-quality, growing businesses at reasonable prices, identified through fundamental research with a long-term, global perspective can lead to long-term superior risk-adjusted returns. Quality companies are those which demonstrate higher sustainable profits, stronger balance sheets, and faster growth.

Responsible Investing

The management of environmental, social, and governance (ESG) factors is integrated into the entire investment process. The investment team regularly meets with the companies in which it invests. PIA's ethical framework further seeks to exclude companies with unsustainable business models.

We believe that our responsible approach to investing enhances long-term returns through better managing a range of risks that can impact investor returns. Companies that avoid polluting the environment, invest in their workforce, monitor their supply chains carefully, and are well-governed are likely to avoid holding stranded assets and will tend to outperform over the long term. However, at times the returns of such companies will deviate from the market index, e.g. fossil fuel stocks outperformed in 2022 when energy prices increased.

Performance

The portfolio manager's quality growth strategy has performed strongly over the years, outperforming its MSCI World Total Return Index since it was first established in 1989.

Last year's investment returns were disappointing as the expectation of increasing interest rates resulted in lower share prices, with growth companies especially impacted. Quality companies that entered the downturn with valuations based on higher earnings multiples also underperformed. This was therefore an unfavorable environment for quality growth strategies such as PIA's.

The global economy is now moving into a period in which interest rates are expected to reach a peak, but may well remain elevated for an extended period of time. This increases the likelihood of a slowdown in consumer spending as household budgets come under strain. In this environment, businesses that depend on consumer spending growth, or are sensitive to finance costs, may come under pressure.

PIA seeks to hold a portfolio of quality businesses that are able to grow earnings throughout the economic cycle, and can finance new investments in any credit environment. It focuses on business models aligned to long-term growth trends such as AI, automation, the aging population, and the expansion in global travel.

Over the calendar year to 31 May 2023, PIA's portfolio has delivered a return of 13.97% (after fees and expenses) compared to its benchmark's return of 13.72%.

Market Outlook

We believe that the Portfolio is positioned to perform well in the prevailing economic environment. The manager will continue to focus on companies able to grow earnings irrespective of the economic cycle and with strong balance sheets. We are confident this approach will deliver long-term outperformance to our shareholders as well as support our mandate to deliver stable, fully franked, dividend income payments.

1. *Based on the 16 June 2023 closing share price of $0.99, grossed up for franking credits at a 25% company tax rate. Updated yield (based on share price) is available on our company website: www.pengana.com/PIA*
2. *Past performance is not a reliable indicator of future performance.*

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$ 1.193
NTA PRE TAX **	A$ 1.223
PRICE CLOSE **	A$ 1.000
SHARES ON ISSUE **	256.54m
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. The index is the MSCI World Total Return Index, Net Dividends Reinvested, in A$.3. Annualised Standard Deviation since mandated
4. Relative to MSCI World
**. As at the last day of last month prior to publishing of this report. The figures are unaudited.
***. MSCI World refers to the MSCI World Total Return Index, Net Dividends Reinvested, in A$.

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