

## PENGANA AXIOM INTERNATIONAL ETHICAL FUND

### DESCRIPTION

The Pengana Axiom International Ethical Fund 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>7</sup> 12.4%

NUMBER OF STOCKS 46

BETA<sup>8</sup> 0.88

### PERFORMANCE TABLE

NET PERFORMANCE FOR PERIODS ENDING 31 Jul 2022<sup>1</sup>

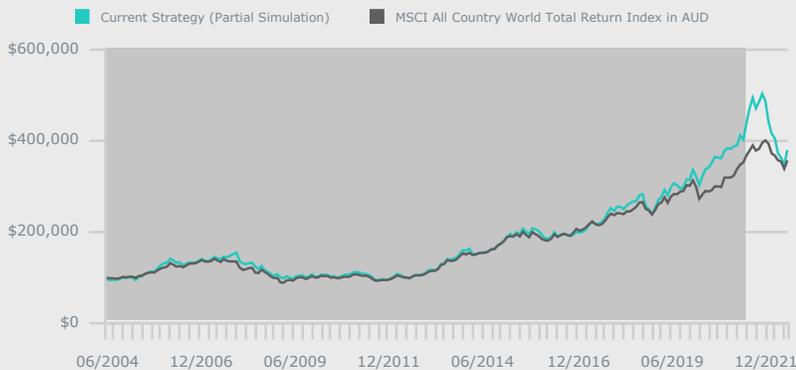
#### Pengana Axiom International Ethical Fund

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 <sup>1</sup> | 3Y   | 5Y    | Since Fund Inception July 2017 <sup>2</sup> | Since Strategy Inception July 2004 <sup>3</sup> |
|--|------|--------|--|------|-------|---|---|
| <b>Fund: APIR (HOW002AU)<sup>12</sup></b><br>Managed by Axiom from June 2021             | 9.6% | -19.6% | -4.9%  | 6.6% | 8.6%  | 8.2%  |   |
| <b>Current Strategy (Partial Simulation)<sup>4</sup></b><br>Axiom Global Equity Strategy |      |        |  | 7.4% | 11.9% | 11.8%                                       | 7.6%  |
| <b>Index<sup>5</sup></b>   | 5.4% | -5.7%  | 1.1%   | 8.1% | 10.8% | 10.3%                                       | 7.2%  |

### PERFORMANCE CHART

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



### TOP HOLDINGS (ALPHABETICALLY)

|                      |                        |
|----------------------|------------------------|
| Alphabet Inc         | Communication Services |
| Amazon               | Consumer Discretionary |
| Apple                | Information Technology |
| Danaher              | Health Care            |
| Estee Lauder Cos Inc | Consumer Staples       |
| Microsoft            | Information Technology |
| ServiceNow Inc       | Information Technology |
| TE Connectivity      | Information Technology |
| Tesla Inc            | Consumer Discretionary |
| Visa Inc             | Information Technology |

### SECTOR BREAKDOWN

|                        |       |
|------------------------|-------|
| Consumer Discretionary | 17.9% |
| Consumer Staples       | 9.8%  |
| Financials             | 6.2%  |
| Health Care            | 16.8% |
| Industrials            | 7.9%  |
| Information Technology | 31.6% |
| Materials              | 1.9%  |
| Real Estate            | 1%    |
| Communication Services | 5.6%  |
| Cash                   | 1.3%  |

### CAPITALISATION BREAKDOWN

|                              |       |
|------------------------------|-------|
| Under 5bn USD                | 3.4%  |
| In between 5bn - 10bn USD    | 0.7%  |
| In between 10bn - 50bn USD   | 24.1% |
| In between 50bn - 150bn USD  | 24.9% |
| In between 150bn - 500bn USD | 25.9% |
| Above 500bn USD              | 19.7% |
| Cash                         | 1.3%  |

### REGION BREAKDOWN

|                         |       |
|-------------------------|-------|
| North America           | 75.5% |
| Europe ex-UK            | 16.3% |
| Emerging Markets - Asia | 1%    |
| Japan                   | 4.2%  |
| Asia Pacific ex-Japan   | 1.7%  |
| Cash                    | 1.3%  |

## GROWTH FACTORS CONTINUE TO REASSERT THEMSELVES

### COMMENTARY

1. In July, growth factors continued to reassert themselves as inflation expectations declined.
2. The Fund's performance in July was driven by both positive allocation and selection effects. Stock selection was particularly strong in consumer discretionary and health care.
3. The Fund's biggest changes during the month were allocating capital away from information technology and increasing exposure to the consumer sectors.

The Pengana Axiom International Ethical Fund ("Fund") generated a return of 9.6% in July, outperforming the benchmark, the MSCI All Country World Index ("Index") by 4.2%.

During July the Fund outperformed the benchmark, the MSCI All Country World Index, by 4.2%.

Growth-orientated shares outperformed value stocks, despite expectations that higher interest rates would be needed to address persistently high inflation, and this would negatively impact economic activity levels.

While the strong US dollar continues to pressure European and emerging market economies, commodity prices (in USD) continued to fall. The Brent oil price fell 5% month-on-month, while European natural gas prices remained elevated on continued regional geopolitical tensions.

Global economic growth data continued to deteriorate. Data relating to European economic activity deteriorated sharply with June Germany factory orders 9.0% lower year-on-year, compared to a 3.2% fall in May.

This weakness was reflected in the US 2-to-10-year yield curve inversion growing to 35 basis points by the end of July. Inverted yield curves sometimes provide early warning of a future recession.

In China, the Zero COVID policy continued to unwind across most of the country which resulted in improved economic activity.

The Fund continues to focus on dynamic growth stocks. Upwards revisions to companies' earnings-per-share forecasts should continue to be a key factor that drives outperformance even as the broader economic cycle deteriorates. The Fund continues to overweight information technology, consumer discretionary and health care, while it remains underweight financials, energy, and materials.

The Fund's outperformance in July was driven by both sector allocation and stock selection. Stock selection was particularly strong in the consumer discretionary and health care sectors. **Tesla**, **Danaher**, and **Hermes** were the strongest contributors to performance, while **ServiceNow**, **AIA Group**, and **FTI Consulting** detracted from relative returns.

Electric car manufacturer **Tesla** reported better-than-expected second-quarter earnings results, despite production issues in China; it also reiterated its 2022 production targets.

Similarly, the US medical device manufacturer **Danaher** reported strong results, with growth in its core diagnostics (non-COVID) business surpassing investor expectations and its own guidance. Furthermore, despite continued US dollar strengthening, Danaher increased its 2022 incremental operating leverage target (the extent to which revenue growth translates into higher profits).

Meanwhile, the French luxury goods group **Hermes** reported strong (20% year-on-year) sales growth, ahead of the 13% consensus expectation. The results were also boosted by much stronger-than-expected operating leverage despite rising raw material cost increases.

Following a strong contribution to relative performance in June, US software company **ServiceNow** underperformed in July. This came after its CEO warned of longer sales cycles in Europe as the regional economy slowed. The Fund maintained its holding in the company, as its long-term revenue and free cash flow growth prospects remain attractive.

Hong Kong-based life insurer and wealth manager **AIA Group** was impacted by a series of negative growth revisions to its estimated net book value, driven by COVID-related lockdowns. The company's high-quality network of agents is well placed to access Asia's rapidly expanding middle class and its pent-up demand for high-margin financial products.

Business advisory firm **FTI Consulting**, reported weaker second quarter earnings results. This was due to some project-related revenue being deferred to the third quarter, negatively impacting second quarter revenue and profitability. The company reiterated its 2022 financial targets and outlined improving demand in its core restructuring and litigation services businesses.

The Fund continued to allocate capital away from information technology towards consumer sectors. There were no new buys or positions exited during July.

Concerns around the current semiconductor capital equipment spending cycle continue to mount, such as memory producers cutting capital expenditure guidance. This led the Fund to reduce its large position in **ASML**, the Dutch supplier to microchip manufacturers.

Similarly, the Fund reduced its holding in US semiconductor group **Advanced Micro Devices (AMD)**. This followed its peer Intel reporting very poor results and providing negative commentary on many of AMD's core markets (notably PCs and gaming).

The Fund continued to establish its position in **FTI Consulting**, which was the largest increase during July.

It also significantly raised its position in the French luxury design house **Hermes**, after significantly upgrading the outlook for the Chinese consumer. The company subsequently announced strong earnings results.

The Swiss pharmaceutical group **Lonza** experienced stock price weakness stemming from market concerns about biotech companies' ability to access future funding. However, the company has only a modest exposure to biotech and it remains a continued strong, long-term growth opportunity. We took advantage of the share price decline to increase our holding in this high-quality business.

The Fund remains well positioned to benefit from dynamic growth within high quality companies over the long-term.

## FEATURES

|                            |  |
|----------------------------|--|
| APIR CODE                  | HOW0002AU  |
| REDEMPTION PRICE           | A\$ 2.5363   |
| FEES *                     | Management Fee: 1.35% p.a                            |
| MINIMUM INITIAL INVESTMENT | \$10,000   |
| FUM AT MONTH END           | A\$ 293.87m  |
| STRATEGY INCEPTION DATE    | 1 July 2004  |
| BENCHMARK                  | MSCI All Country World Total Return Index (net, AUD) |

## FUND MANAGERS



**Bradley Amoils**  
Managing Director/Portfolio Manager



**Andrew Jacobson**  
CEO/Chief Investment Officer

Prior to June 2021, the Axiom Global Equity Strategy performance (shown in the shaded area) includes the strategy performance simulated by Pengana from the monthly gross returns of the Axiom Global Equity strategy. This simulation was done by: 1) the conversion of US-denominated gross returns to AUD, 2) applying the fee structure of the stated class. The simulation does not include the Pengana ethical screen. From June 2021 the strategy performance is the performance of the Pengana Axiom International Ethical Fund.

1. Axiom was appointed fund manager as of 5 May 2021. June 2021 represents the first full month of Axiom managing the Fund.
2. 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 (HOW0002AU) in the table above which is the continuous performance of both the current and previous strategies.
3. Axiom Global Equity Strategy inception 1 Jul 2004.
4. Prior to June 2021, the Axiom Global Equity Strategy performance (labeled 'Strategy (Partial Simulation)' and shown in the shaded area) includes the strategy performance simulated by Pengana from the monthly gross returns of the Axiom Global Equity strategy. This simulation was done by: 1) the conversion of US-denominated gross returns to AUD, 2) applying the fee structure of the stated class. The simulation does not include the Pengana ethical screen. From June 2021 the strategy performance is the performance of the Pengana Axiom International Ethical Fund.
5. MSCI All Country World Total Return Index in AUD.
6. 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. Past performance is not a reliable indicator of future performance, the value of investments can go up and down.
7. Annualised standard deviation since inception.
8. Relative to the MSCI All Country World Total Return Index in AUD.

\*For further information regarding fees please see the PDS available on our website.

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### PENGANA.COM

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