

**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> 12.5%

NUMBER OF STOCKS 47

BETA<sup>8</sup> 0.88

**PERFORMANCE TABLE**

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

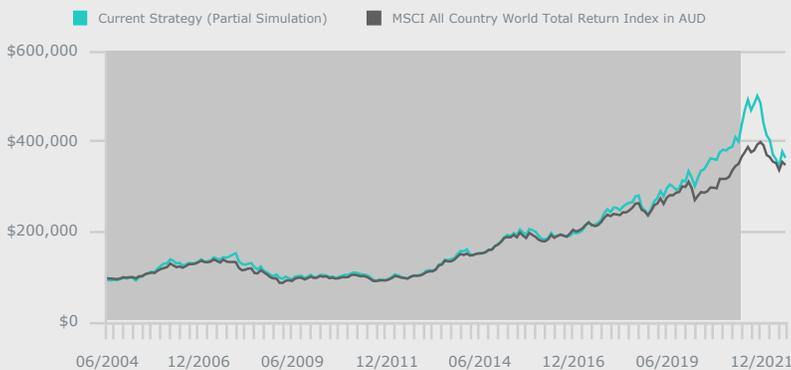
**Pengana Axiom International Ethical Fund**

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>1,2</sup></b> Managed by Axiom from June 2021	-3.7%	-26.1%	-7.3%	5.0%	7.6%	7.3%	
<b>Current Strategy (Partial Simulation)<sup>4</sup></b> Axiom Global Equity Strategy				6.6%	10.6%	10.8%	7.4%
<b>Index<sup>5</sup></b>	-2.0%	-10.3%	-0.5%	7.4%	10.1%	9.7%	7.1%

**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
Gartner Inc	Information Technology
Microsoft	Information Technology
ServiceNow Inc	Information Technology
Tesla Inc	Consumer Discretionary
Visa Inc	Information Technology

**SECTOR BREAKDOWN**

Consumer Discretionary	18.6%
Consumer Staples	9.7%
Financials	6.3%
Health Care	16.1%
Industrials	8.5%
Information Technology	31.6%
Materials	1.8%
Real Estate	1%
Communication Services	5%
Cash	1.4%

**CAPITALISATION BREAKDOWN**

Under 5bn USD	3.8%
In between 5bn - 10bn USD	1%
In between 10bn - 50bn USD	24.7%
In between 50bn - 150bn USD	24.8%
In between 150bn - 500bn USD	24.5%
Above 500bn USD	19.8%
Cash	1.4%

**REGION BREAKDOWN**

North America	75.8%
Europe ex-UK	15.9%
Emerging Markets - Asia	1%
Japan	4.1%
Asia Pacific ex-Japan	1.8%
Cash	1.4%

## MONTHLY REPORT

### COMMENTARY

- Equity markets weakened upon fears that global interest rates would stay higher for longer, which especially impacted growth stocks
- Share prices continued to receive some support from reasonably strong company earnings
- The Fund returned -3.7% in August, while the benchmark returned -2.0%

During August, the Fund underperformed the benchmark, the MSCI All Country World Index by 1.7%.

Growth-inclined stocks weakened upon expectations that interest rates would need to be higher for longer to bring inflation back under control. Global value stocks outperformed growth by 1.9% in August.

The underperformance of growth companies occurred despite the continued moderation in inflation. The US Core Personal Consumption Expenditure (PCE) Price Index rose 4.6% year-on-year in August, down from the 4.8% July increase.

The more negative market sentiment followed a speech by Federal Reserve (Fed) Chair Jerome Powell at the Federal Reserve's annual Jackson Hole conference. He detailed the Fed's plan to slow inflation through higher interest rates, which reflected a willingness to tolerate higher unemployment and slower economic growth.

This shifted market expectations towards a higher peak in interest rates next year and a longer pause before eventual monetary easing. This brought a 0.60% increase in the yield of the interest rate-sensitive two-year US Treasury bond, wider credit spreads and lower equity market valuations.

The US dollar continued to strengthen in August, pressuring European and emerging market economies. Meanwhile, commodity prices, except for European natural gas prices, continued to moderate, with the price of Brent crude oil falling by 5%.

Economic news varied by region, with stronger July US manufacturing and labour market data, while Europe and China continued to deteriorate. Eurozone purchasing managers' data were weaker in July, indicating the sector is contracting, while regional inflation continues to accelerate (rising 4.3% year-on-year in August, from 4.0% in July).

China's manufacturing activity continued to contract in July while services activity continued to moderate. Rolling COVID-related lockdowns in China continue to constrain economic activity.

The Fund retains its focus on dynamic growth stocks as positive revisions to earnings per share (EPS) should continue to drive outperformance, despite the economic uncertainty. The Fund continues to overweight information technology, consumer discretionary (especially companies with exposure to electric vehicles) and health care. It remains underweight financials, energy, and utilities.

The Fund's stock selection in the information technology and materials sectors contributed to relative performance, while it detracted in health care and consumer staples. **Samsonite**, **Gartner** and **Uber** were the strongest contributors to performance, while **ASML**, **Zoetis** and **Danaher** were the most significant detractors.

**Samsonite**, the US-based travel baggage manufacturer, reported better-than-expected results in August, driven by strong earnings in Europe and Latin America. This offset shipping issues and COVID lockdowns that impacted results in North America and China respectively. Earnings before interest, tax and depreciation (EBITDA) margins exceeded expectations, while guidance for 2022 sales and margins both increased ahead of investor expectations.

Similarly, the US-based technology consultancy **Gartner** reported improved revenue and margins, while future earnings guidance was revised higher, ahead of investor expectations. The company continues to compound earnings growth ahead of expectations due to its high sensitivity to accelerating revenue growth.

Uber outperformed the market upon strong second quarter EBITDA, which was 37% ahead of expectations. This followed higher take rates – the fee charged by Uber to drivers of its ride hailing and Eats businesses. The company's third quarter EBITDA guidance was also 15% ahead of expectations.

Following strong outperformance in July, the fortunes of **ASML**, the Netherlands-based chipmaker supplier, reversed significantly in August as the semiconductor cycle deteriorated. The Fund remains underweight to semiconductor stocks, but it maintains a position in ASML as its sales orders this year are well ahead of expectations. This brings the opportunity for the company to outperform next year as the semiconductor cycle develops.

While the Fund significantly reduced exposure to pet care companies earlier this year, the holding in US-based animal drug group **Zoetis** detracted from relative performance during August. This followed concerns that inflation may negatively impact consumer discretionary spending on pet care.

US-based diversified technology group **Danaher** underperformed the market in August as growth companies weakened. This followed strong performance in July following its well-received earnings results. The company continues to outperform expectations across its core life sciences and diagnostic businesses. Its low debt levels may enable it to take advantage of opportunities to grow through acquisition over the medium term.

The Fund's biggest change during the month was a capital allocation away from communication services and information technology and into the industrial sector.

US-based global entertainment company **Live Nation** was the largest position reduction, despite continued strong earnings results. However, incoming data on the impact of inflation on discretionary consumer spending given the high ticket prices of live events led to a substantial reduction in the position.

The Fund continued to reduce its semiconductor exposure via further sales to the small positions in **Advanced Micro Devices** and **STMicroelectronics**. Data continues to deteriorate despite both companies reporting strong near-term results.

The Fund's position in the Canadian fertilizer group **Nutrien** was substantially reduced during August, as demand in the global potash market was impacted by high prices. However, the addition of Albemarle, a global leader in lithium production, resulted in a broadly unchanged weighting to the materials sector.

The Fund did not exit any positions in August.

The Fund's largest position increase during August was to **Gartner**, following strong second quarter earnings results. The Fund's updated financial modelling of the company shows further incremental upside potential to 2023 earnings and free cash flow.

The Fund continued to add to its holding in the French luxury design house **Hermes** during August. Data continued to demonstrate the strength of the high-end consumer market and the company's product positioning.

The Fund continued to further increase its recently established position in the US-based business advisory firm **FTI Consulting**. The stock provides counter-cyclical economic exposure due to its leading position in corporate restructuring and litigation services consulting.

The Fund initiated a position in US-based specialty chemicals manufacturer **Albemarle** during the month. The company has continued to increase its lithium contract sale prices ahead of investor expectations, these are now closer to spot rates observed in the market. This repricing opportunity appears to be sustainable given the favourable long-term supply/demand fundamentals in the global lithium market.

Two holdings, **Danaher** and **Callaway**, received upgrades from MSCI's ESG ratings service. Danaher's upgrade was driven by improvements to the firm's whistle-blower protection policies and changes to product quality and safety measurement practices. Danaher leads its peer group in quality management, supplier training, and ISO 13485 certifications.

US-based **Callaway Golf Company's** ESG upgrade was driven by the reduction in single-use plastic packaging within the firm's golf equipment and accessories business. MSCI now views Callaway's single-use plastics exposure as 'low' given the company's implementation of package 'lightweighting' and use of alternative materials.

## FEATURES

APIR CODE	HOW0002AU
REDEMPTION PRICE	A\$ 2.4436
FEES *	Management Fee: 1.35% p.a
MINIMUM INITIAL INVESTMENT	\$10,000
FUM AT MONTH END	A\$ 282.28m
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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