

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 14.6%

NUMBER OF STOCKS 46

BETA⁹ 0.95

PERFORMANCE TABLE

NET PERFORMANCE FOR PERIODS ENDING 31 Aug 2023¹

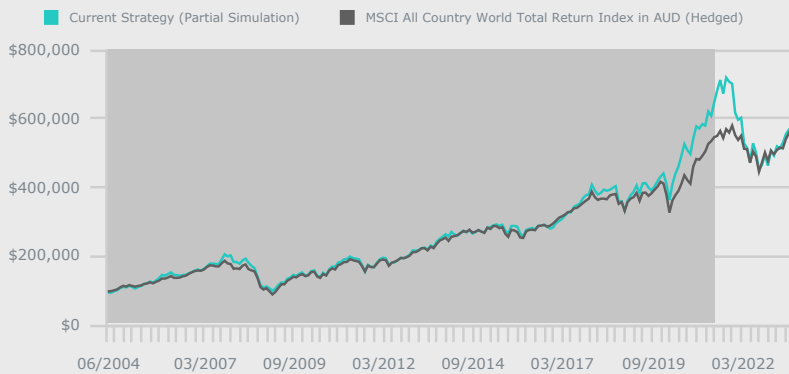
Pengana Axiom International Ethical Fund (Hedged)¹

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	-0.8%	12.3%	-11.1%	-3.3%	0.7%	4.4%	6.3%
Current Strategy (Partial Simulation)⁵ Axiom Global Equity Strategy					2.3%	7.2%	9.2%
Index (Hedged)⁶	-2.2%	11.4%	-1.7%	0.9%	7.8%	7.5%	8.5%

PERFORMANCE CHART

NET PERFORMANCE SINCE INCEPTION²



TOP HOLDINGS (ALPHABETICALLY)

Alphabet Inc	Communication Services
Amazon.com Inc	Consumer Discretionary
Apple Inc	Information Technology
Eli Lilly & Co	Health Care
Hermes International SCA	Consumer Discretionary
Microsoft Corp	Information Technology
Novo Nordisk A/S	Health Care
NVIDIA Corp	Information Technology
ServiceNow Inc	Information Technology
Visa Inc	Financials

SECTOR BREAKDOWN

Consumer Discretionary	18.8%
Consumer Staples	3.2%
Financials	8.1%
Health Care	19.6%
Industrials	9.1%
Information Technology	34%
Materials	0.4%
Real Estate	0.9%
Communication Services	3.5%
Cash	2.4%

CAPITALISATION BREAKDOWN

Under 5bn USD	2.5%
In between 5bn - 10bn USD	2.6%
In between 10bn - 50bn USD	17.3%
In between 50bn - 150bn USD	21.6%
In between 150bn - 500bn USD	22.8%
Above 500bn USD	30.8%
Cash	2.4%

REGION BREAKDOWN

North America	67.7%
Europe ex-UK	15.4%
Emerging Markets	5.6%
Japan	3.7%
UK	2.1%
Asia Pacific ex-Japan	3.1%
Cash	2.4%

AUGUST REPORT

COMMENTARY

- Global equity markets moved lower during August, following the strong recovery in share prices over recent months.
- The global economy continued to slow and rising inflationary pressures pushed up longer-term bond yields, impacting share prices.
- The Portfolio returned -0.8% in August, while the benchmark returned -2.2%.

We are pleased to present a series of short articles in our latest [published feature](#) from the Pengana Axiom International Fund.

Global share markets unwound some of the gains of recent months in August, as a rebound in inflationary pressures raised concerns that global interest rates would remain higher for longer. The slowdown in consumer spending led to value stocks underperforming growth during the month. US inflation increased to 3.2% year-on-year in July from 3.0% in June, helping the US dollar increase by 1.7% against its trade-weighted index in August. Meanwhile, commodity prices were also broadly stronger in August compared to July.

Global economic activity continued to moderate in July compared to June, with Eurozone composite data and US manufacturing new orders both indicating economic contraction.

China's manufacturing activity returned to expansion, although the broader "re-opening" performance post zero-COVID has largely remained subdued. Travel and entertainment were the strongest performing sectors as consumer spending remained sluggish. China's highly leveraged property-sector continued to slow the economy.

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

Strong stock performance in health care, consumer discretionary, and consumer staples contributed to relative returns. Weak stock selection in financials and a zero weighting to energy were the main detractors.

US-based pharmaceutical company **Eli Lilly** announced strong second quarter earnings, driven by sales of the obesity drug Mounjaro; it also raised its full year earnings guidance. This positive outlook is supported by the Fund's own weekly tracking of pharmacy script data which also shows distribution of Mounjaro continuing to accelerate.

US-based luggage manufacturer and retailer **Samsonite** also delivered strong second quarter earnings ahead of investor expectations and provided improved forward guidance. The company continues to benefit from the strong rebound in global travel and is benefitting from improved margins following earlier cost savings, bringing significant further upside potential.

Emerging US-based cosmetics brand **e.l.f. Beauty** outperformed after it announced the acquisition of Naturium, which will double its presence in the skincare market. Skincare is particularly attractive for e.l.f. and the acquisition appears to fit well with its other brands.

Netherlands-based digital payments group **Adyen** announced disappointing half-year earnings results, with lower

than expected total payment volumes. The company attributed this to increased competition in the US, slower eBay trends, and macroeconomic headwinds. More specifically, digital payment volumes were impacted by increasingly competitive pricing in North America, as enterprises focus on cost optimization and competitors are more willing to reduce prices. Adyen has confirmed it will not adopt a lower pricing strategy, suggesting that volumes are likely to remain under pressure in the short term.

Weakness in Japanese entertainment and electronics group **Sony's** share price resulted from lower than expected second half-year earnings results. Profitability was particularly weak in the semiconductor image sensor segment due to the slowdown in the smartphone market.

French luxury goods company **Hermes** underperformed despite reporting stronger than expected first-half year earnings results. Leading competitors such as LVMH and Richemont highlighted slowing trends in Europe and a more gradual recovery in the Chinese consumer sector.

The **Nvidia** position was increased ahead of the earnings results as the Fund's tracking of foundry procurement data showed incremental order increases for 5nm semiconductor capacity. This further supported the likelihood of a positive earnings surprise in late August. The Fund also continued to add to its Amazon position after its cloud growth exceeded market expectations in the second quarter earnings report.

The position in Dutch technology group **STMicro** was reduced upon concerns about its automotive business following weaker than expected earnings guidance from its peers Analog Devices and Microchip. The Fund also trimmed its position in Hong Kong-based life insurer and wealth manager AIA, reflecting increasing concerns for China's property market.

The Fund established a position in the Italian luxury sports car manufacturer **Ferrari**, which has an extremely strong global brand and a waiting list for vehicles in excess of two years. The Fund's modelling shows significant scope to increase earnings as personalisation becomes a larger part of the business. Currently, personalisation represents just 15% of car and spare parts sales but generates 50-90% gross profit margins.

The Fund also established a position in US-based **Cadence Design Systems**, which is a leader in electronic design automation. Its software provides the basic building blocks for designing a semiconductor device, such as placing and routing transistors on a chip. There is limited competition in the electronic design automation industry and the company has historically shown resilient growth through business cycles.

The Fund exited its position in US-based multinational cosmetics company **Estee Lauder**. The company had reported disappointing second quarter earnings and issued forward guidance which was way below investor expectations. While the brand does not appear to be impaired, the company must address several near-term issues that will likely impact its margins for longer than initially expected.

During August, US-based logistics real estate investment trust Prologis' ESG rating was downgraded to A from AA by MSCI. Human capital management initiatives were found to just be in line with the industry peer group, rather than ahead of it. The company appears to lag industry peers in offering support for degree programs, and its non-salary benefits appear limited to some employees. The Fund plans to engage with the company to better understand what programs it offers to employees and if it has any plans to increase benefits.

The Fund held ESG engagement conversations with the management teams of **Microsoft** and **Taiwan Semiconductor Manufacturing Corp (TSMC)** during August. In conversation with TSMC, it became apparent that the company offers a wide range of learning resources to all employees (both full and part-time employees and also contractors). The learning content and approaches cater to the needs of individuals and organisations. This is not reflected in MSCI's ESG reporting, so the Fund urged the management team to engage with MSCI to potentially improve its rating.

FEATURES

APIR CODE	HHA0002AU
REDEMPTION PRICE	A\$ 2.5301
FEES *	Management Fee: 1.35% p.a
MINIMUM INITIAL INVESTMENT	\$10,000
FUM AT MONTH END	A\$ 45.06m
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.

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