MONTHLY REPORT
DECEMBER 2021

PENGANA
CAPITAL

PENGANA HARDING LOEVNER INTERNATIONAL FUND

DESCRIPTION

An International Fund targeting superior risk-adjusted returns through investing in high-quality and durable growing companies at reasonable prices.

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The **Pengana Harding Loevner International Fund** invests in high-quality, growing companies identified through fundamental research with a long-term, global perspective.

Pengana has appointed Harding Loevner to managed the Fund. Harding Loevner is a New Jersey-based global equity fund manager formed in 1989 with over US$84billion in Assets under Management.

Harding Loevner' analysts search the world for companies that meet their high quality and durable growth criteria, conduct fundamental research, then value and rate their stocks to make them available to PMs for investment.

STATISTICAL DATA

VOLATILITY[8] 9.4%	NUMBER OF STOCKS 72	BETA[9] 0.77

PERFORMANCE TABLE

NET PERFORMANCE FOR PERIODS ENDING 31 Dec 2021[1]

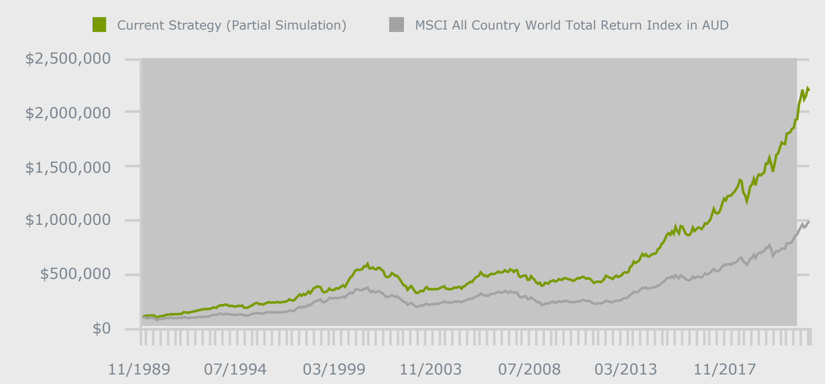
Pengana Harding Loevner International Fund Class B

The Class was established in 1 July 2015. From June 2021 Harding Loevner was appointed as the investment manager for the Fund.

	1M	Since Harding Loevner Appointed June 2021[1]	1Y	3Y	5Y	Since Fund Inception July 2015[2]	Since Strategy Inception November 1989[3]
Fund (APIR PCL0026AU)[1,2] Managed by Harding Loevner from June 2021	-0.9%	13.7%	19.3%	19.9%	16.1%	13.1%	
Current Strategy (Partial Simulation)[4] Harding Loevner Global Equity Strategy			21.8%	23.2%	17.8%	15.3%	10.1%
Index[5]	1.4%	13.9%	25.8%	19.1%	14.3%	12.3%	7.4%

PERFORMANCE CHART

NET PERFORMANCE SINCE INCEPTION[2]



TOP HOLDINGS (ALPHABETICALLY)

Alphabet Inc	Communication Services
Amazon	Consumer Discretionary
Deere & Co	Industrials
Facebook Inc	Communication Services
First Republic Bank	Financials
Microsoft	Information Technology
Nike Inc	Consumer Discretionary
SVB Financial Group	Financials
Thermo Fisher Scientific	Health Care
UnitedHealth Group Inc	Health Care

SECTOR BREAKDOWN

Consumer Discretionary	7.3%
Consumer Staples	1.9%
Energy	1.9%
Financials	12.8%
Health Care	24.4%
Industrials	10.9%
Information Technology	23.1%
Real Estate	1.4%
Communication Services	12.9%
Utilities	0.5%
Cash	3%

CAPITALISATION BREAKDOWN

Under 5bn USD	1.2%
In between 5bn - 10bn USD	1.4%
In between 10bn - 50bn USD	28%
In between 50bn - 150bn USD	30%
In between 150bn - 500bn USD	21%
Above 500bn USD	15.4%
Cash	3%

REGION BREAKDOWN

North America	61.7%
Europe ex-UK	12.8%
Emerging Markets	15.2%
Japan	2.6%
UK	2%
Asia Pacific ex-Japan	1.8%
Australia/New Zealand	0.9%
Cash	3%

SUSTAINING PROFITABLE GROWTH INTO AN UNCERTAIN FUTURE

COMMENTARY

In December 2021, the Fund detracted -0.9% compared to the MSCI ACWI (Total Return in AUD) which rose 1.4% for the same period.

In this month's commentary, we look at the stocks that influenced December's performance, as well as provide deeper insight into the broader approach of the strategy.

The Global Equity strategy underperformed its benchmark in December. By style, our focus on growth detracted, as shares of the fastest-growing companies significantly underperformed both the broad market and their slowest-growing peers. Additionally, shares of the least-expensive companies significantly outperformed the broad index and their most-expensive peers, a headwind for the strategy during the month.

By sector, weak stocks in Information Technology, Financials, and Health Care detracted from relative returns. US software developer **Adobe** declined despite reporting strong earnings, as management issued disappointing guidance for next year in anticipation of slowing growth. In Financials, our significant overweight in US-banks **SVB Financial** and **First Republic Bank** detracted as shares of both companies declined slightly during the period. In Health Care, two Chinese companies—pharmaceutical R&D services platform **WuXi AppTec** and biologics service provider **WuXi Biologics**—detracted as new Chinese regulatory standards for approving oncology drugs continued to weight on investor sentiment toward the stocks of drug developers. Our overweight in Health Care and underweight in the lagging Consumer Discretionary sector were helpful.

By geography, stock selection in the US and in Emerging Markets detracted. In the US, Adobe and e-commerce company **Etsy** were significant detractors. Shares of the latter fell as data showed weak retail sales in the US relative to last year. In Emerging Markets, underperformance was largely due to both WuXi AppTec and WuXi Biologics.

We are not practitioners of the (futile) arts of interest rate prognostication or stock market timing—not even market-style timing. And as hard as we work to value companies, we recognize the imprecise nature of that art. Rather than trying to predict inflation, we analyze industry and company vulnerabilities to inflation through the lens of Michael Porter's "Five Forces," especially through the relative bargaining power of buyers and suppliers. That is, we aim to identify which businesses will be resilient in an inflationary environment due to their ability to pass on whatever higher costs or supply chain frictions they experience. More broadly, we attempt to evaluate all the forces that shape and define industry profitability and assess the efficacy of the capital allocation decisions that underpin each of our companies' long-term growth trajectory, with inflation merely one variable in, or facet of, that analysis. Our bottom-up analysis has kept us optimistic about the potential for continued strong earnings growth from our companies, especially considering what we see as high and sustained levels of innovation and secular growth in their target markets. But that optimism is tempered by the knowledge that, when it comes to precisely assessing stock prices, we are still vulnerable to significant and persistent changes in inflation or interest rates.

This dual existence of a business and its share price underpins why we always try to be careful to distinguish companies from stocks, both when we consider their investment merits as well as when we write about them. We see our valuation efforts as a quest to detect unsupportable optimism or unwarranted pessimism embedded in share prices, rather than arraying companies precisely along an orderly spectrum of expensiveness with a finely tuned financial model.

The investment challenge boils down to identifying which companies can sustain profitable growth into an uncertain future. We are living in a time of profound technological innovation enabled by rapid advances in semiconductors and their information processing applications. Companies that substantially contribute to or benefit from these innovations enjoy enormous growth tailwinds. One such example of technology-enabled innovation is the application of artificial intelligence (AI) to drug discovery. In December, Science magazine designated the use of AI to predict the three-dimensional structure of proteins as its 2021 Breakthrough of the Year. Alphabet's AlphaFold 2 program, and another non-profit effort known as RoseTTAfold (supported in part by Microsoft), are now able to simulate the 3D structures of proteins rapidly, allowing scientists to model a protein's binding and inhibitory functions in the pathway of a disease, for instance.

The significance to our portfolio is twofold.

First, are the direct applications to our holdings. In Health Care these include the state-of-the-art providers of drug development services Wuxi Biologics and Wuxi Apptec, as well as life sciences services and consumables companies Illumina, Thermo Fisher, Danaher, and Abcam—the "picks and shovels" suppliers to the AI-wielding scientists and biotech firms on the frontlines of this new golden age of drug discovery. The life sciences breakthroughs are but one example of the remarkable impact AI is having across autonomous transport, logistics, automation, climate science, and many other fields.

Secondly, through the companies helping to make possible the AI itself. Alphabet is one company helping to drive these breakthroughs, but so is Nvidia, the chip designer whose signature graphic processing units and complementary software is at the forefront of providing the tools to unlock the potential of the oceans of data involved in AI development. Another key enabler is Synopsys, one of a duopoly providing the AI-powered chip design software to design chips for the AI age, as are ASML and Applied Materials, critical equipment makers for the semiconductor makers serving the designers.

FEATURES

APIR CODE	PCL0026AU
REDEMPTION PRICE	A$ 1.0234
FEES *	Management Fee: 0.974% Performance Fee: Nil
MINIMUM INITIAL INVESTMENT	$10,000
FUM AT MONTH END	A$ 71.04m
STRATEGY INCEPTION DATE	1 December 1989
BENCHMARK	MSCI All Country World Total Return Index (net) in $A

FUND MANAGERS

Peter Baughan
Portfolio Manager

Jingyi Li
Portfolio Manager

1. Harding Loevner was appointed fund manager as of 10 May 2021. June 2021 represents the first full month of Harding Loevner managing the Fund.
2. Class B Inception date 1 July 2015. Figures shown are calculated from the continuous performance of both the current and previous strategies. For performance see row labelled Fund (APIR PCL0026AU) in the table above which is the continuous performance of both the current and previous (shaded) strategies.
3. Harding Loevner Global Equity Strategy inception 1 Dec 1989
4. Prior to June 2021, the Harding Loevner Global Equity Strategy performance (labelled 'Current Strategy (Partial Simulation)' and shown in the shaded area) includes the strategy performance simulated by Pengana from the monthly gross returns of the Harding Loevner Global Equity strategy. This simulation was done by: 1) the conversion of US-denominated gross returns to AUD, 2) applying the fee structure of Class B. From June 2021 the strategy performance is the performance of the Pengana Harding Loevner International Fund Class B.
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. The Harding Loevner Global Equity Strategy performance (shown in the shaded area in the chart, and in the performance table as row labeled 'Harding Loevner Global Equity Strategy) has been simulated by Pengana from the monthly gross returns of the Harding Loevner 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. Strategy Inception 30 November 1989.
8. Annualised standard deviation since inception.
9. Relative to 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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