

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

VOLATILITY³ 8.6%

NUMBER OF STOCKS 70

BETA⁴ 0.68

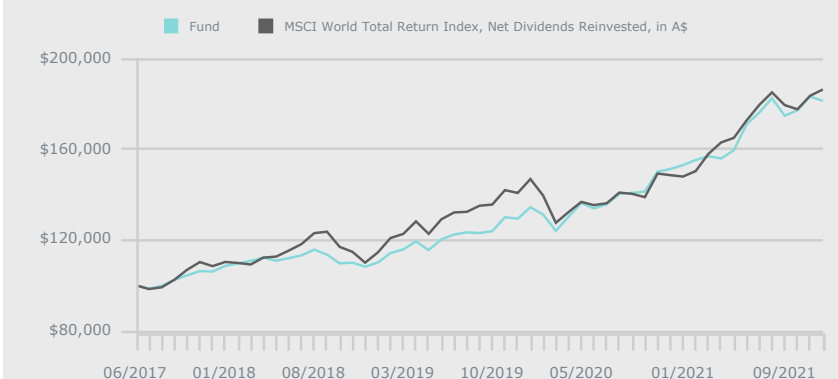
PERFORMANCE TABLE

NET PERFORMANCE FOR PERIODS ENDING 31 Dec 2021¹

	1M	1Y	3Y	Pengana SI July 2017 ¹
(ASX: PIA)	-1.1%	19.8%	18.7%	14.1%
Index ²	1.7%	29.3%	20.4%	15.6%

PERFORMANCE CHART

NET PERFORMANCE SINCE INCEPTION²



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	7.4%
Consumer Staples	1.9%
Financials	13%
Health Care	24.7%
Industrials	13.2%
Information Technology	23.4%
Real Estate	1.4%
Communication Services	13%
Utilities	0.5%
Cash	1.5%

CAPITALISATION BREAKDOWN

Under 5bn USD	1.2%
In between 5bn - 10bn USD	1.5%
In between 10bn - 50bn USD	27.6%
In between 50bn - 150bn USD	31.4%
In between 150bn - 500bn USD	21.3%
Above 500bn USD	15.6%
Cash	1.5%

REGION BREAKDOWN

Australia/New Zealand	0.9%
North America	62.5%
Europe ex-UK	13.2%
Emerging Markets	15.4%
Japan	2.6%
UK	2%
Asia Pacific ex-Japan	1.8%
Cash	1.5%

SUSTAINING PROFITABLE GROWTH INTO AN UNCERTAIN FUTURE

COMMENTARY

In December 2021, the Portfolio detracted -1.1% compared to the benchmark which rose 1.7% 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 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 weigh 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 Aptec, 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

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\$ 1.452
NTA PRE TAX **	A\$ 1.520
PRICE CLOSE **	A\$ 1.465
SHARES ON ISSUE **	255.49m
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. 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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ACN 107 462 966

MANAGED BY PENGANA INVESTMENT MANAGEMENT LIMITED

PART OF THE PENGANA CAPITAL GROUP

AFSL 219462

PENGANA.COM/PIA

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