

Pengana International Equities Limited

Rating issued on 28 Nov 2024 | Exchange Code: PIA

Investment objective

To outperform the MSCI World Net Total Return Index \$A (after fees) with lower volatility over the long-term.

Manager	Harding Loevner
Distributor	Pengana Capital Group
Sector	International Shares Global (Unhedged)
Investment Style	Sustainable/Ethical
RI Classification	Integrated
Absolute Risk	High
Relative Risk	Active - Benchmark Unaware
Investment Timeframe	7+ Years
Benchmark	MSCI World Ex Aust \$A
Min Investment Amount	\$500
Redemption Frequency	Other
Income Distribution	Quarterly
Fund Size	Not Disclosed
Management Cost	1.23% p.a. Incl. GST
Performance Fee	15.38% of any excess return above the MSCI World Total Return Index, net dividends reinvested \$A
Buy / Sell Spread	N/A
Inception Date	19 Mar 2004

Fund facts

- Employs a socially responsible screening process
- Expected to hold 35 to 75 positions
- The Company's portfolio turnover is expected to average between 20% p.a. and 40% p.a. over a market cycle

Viewpoint

The Company, managed by Harding Loevner (HL) and distributed by Pengana Investment Management Limited (Pengana), provides investors with a socially responsible, benchmark-unaware, quality and growth-biased global equities exposure. Despite recent changes to the Company's portfolio management team, Zenith believes that the Fund remains well managed. Further, we highlight HL's experienced and well-resourced team, and the successful application of its investment process, which has produced attractive investment outcomes since 1989.

Established in 1989, HL is a global equities investment management firm headquartered in Bridgewater, New Jersey. As at 31 October 2024, HL managed approximately \$US 45.9 billion firmwide.

The investment team of 31 is spread across two offices, Bridgewater and London. The investment team is highly experienced and long-tenured, averaging over 23 years of investment experience and over 10 years with the firm. Zenith views the team's experience and tenure positively, which ensures the consistent application of HL's investment process.

The Company is managed by Jingyi Li and Richard Schmidt, with each responsible for the management of two similarly weighted and independent sub-portfolios. In October 2024, Peter Baughan relinquished his portfolio management responsibilities and will retire from the firm at year-end 2024. As a result, Schmidt became a portfolio manager alongside Li. While Zenith believes Baughan's departure is a loss for the strategy, we draw comfort from Schmidt's significant experience and his long term working relationship with Li.

Through a fundamentally-driven, benchmark unaware investment approach, HL aims to hold high-quality, growing companies at reasonable valuations. HL favours companies that have competitive advantages, quality management, financial strength and sustainable growth. HL believes companies that possess these characteristics produce superior risk-adjusted outcomes over the long term. Zenith believes that HL's investment philosophy is intuitive.

Analysts undertake a detailed research process, typically two to three months in duration, which involves meeting with management and company stakeholders. HL employs a standardised, multi-stage discounted cash flow valuation methodology that forecasts 5 to 10 years forward. In addition, analysts identify investment milestones that are linked to the successful execution of company strategy. Overall, Zenith believes HL's stock selection process is comprehensive, providing a strong input for portfolio construction.

Position sizing in each sub-portfolio is agnostic to benchmark weights and driven by the portfolio managers' view of company quality, relative valuations, stock liquidity and overall portfolio risk characteristics. Although Zenith acknowledges the benefits of HL's multiple portfolio manager approach, portfolio manager accountability and moderation of key person risk, it is not our preferred portfolio construction method. Zenith believes this approach leads to less transparency and may affect team cohesion in periods of poor performance.

Prior to May 2021, the Company was managed by Pengana's internal investment team. As such, the Company's performance prior to this date should not be used when assessing HL's performance as the investment manager.



Fund analysis

Fund characteristics

Constraint	Value
Security Numbers	35 to 75
Absolute Stock Weight	Max: 5%
Absolute Sector Weight	Max: 25%
Number of Invested Sectors	Min: 7
Active Country Weight	Max: 25%
Number of Invested Countries	Min: 15
Absolute Emerging Markets Weight	Max: 25%
Cash	Max: 10% (Typically 3%)

Investment objective and philosophy

The Company's investment objective is to outperform MSCI World Net Total Return Index \$A whilst reducing volatility and the risk of losing capital. Internally, HL aims to outperform the benchmark by 3% p.a. (before fees) over the long term.

The Company is managed with an ethical framework, aiming to avoid investing in businesses that are, in Pengana's opinion, involved in activities that may be harmful to people, animals or the environment.

Through a fundamentally driven, benchmark-unaware investment approach, HL aims to hold high-quality, growing companies at reasonable valuations. HL favours companies that have the following characteristics:

- Competitive advantage
- Quality management
- Financial strength
- Sustainable growth

HL believes companies that possess these characteristics produce superior risk-adjusted outcomes over the long term.

Zenith believes that HL's investment philosophy is intuitive. In addition, we note that the investment process has been employed consistently across HL's investment strategies dating back to 1989, producing attractive investment outcomes.

Portfolio applications

In general, compared to most other asset classes, equities offer investors the opportunity for higher capital growth over the longer term with some income. However, this higher growth is also often associated with higher volatility, particularly with international equities when currency movements are considered. International equities provide investors with a broad exposure to industries and countries. With this broad universe, it is expected that managers can deliver superior returns to more conservative asset classes. Therefore, we recommend investors adopt a longer time frame when investing in international equities. It is also recommended that investments in international equities are blended with domestic equities and other asset classes to improve portfolio diversification.

HL targets growth companies across both developed and emerging markets. However, given HL also aims to invest in

high-quality companies, Zenith expects the Company to outperform in falling market environments. To achieve a more diversified international equities exposure, Zenith believes the Company would blend well with other core and/or value-orientated international equities products.

HL's consideration of sustainability factors may appeal to investors seeking a more socially responsible international shares offering. Zenith notes that the sustainable/ethical sector comprises a number of funds that range in their interpretation of screening (both negative and positive) and their assessment of socially-responsible investment issues. Zenith believes investors should familiarise themselves with a manager's responsible investment policy before investing.

The Company's portfolio turnover is expected to average between 20% p.a. and 40% p.a. over a market cycle, which Zenith considers to be low. HL has indicated that approximately 25% of the expected turnover is attributed to resizing existing positions and approximately 75% is due to initiating and closing positions.

Despite the relative merit of the strategy, investors should give consideration to the mode of access. While an unlisted fund structure may be less convenient for some investors, accessing a strategy via a listed vehicle means that the effectiveness of the strategy may be significantly diminished due to the vehicle's own trading movements. That is, investors may be unable to benefit from the portfolio's performance, as the performance of the vehicle is driven by market sentiment and may trade away from its net tangible assets.

Fund responsible investment attributes

Key Information	Description
Zenith RI classification*	Integrated
Has Responsible Investment Policy	Yes
Negative screens**	Full/Partial
Alcohol	Partial
Armaments	Partial
Fossil fuels	Partial
Gaming	Partial
Adult Entertainment	Partial
Tobacco	Partial
Nuclear Power	Partial
Human rights abuse	Partial
Animal cruelty	Partial
Environmental Degradation	Partial
Other Measures	Controversial Weapons (Full), Genetically Modified Organisms (Partial), Mining (Partial), Sever Impact on Ecosystems (Partial)



Key Information	Description
PRI Status	
PRI Signatory	Yes

*Zenith RI Classification scale:

- Traditional
- Aware
- Integrated
- Thematic
- Impact

***Data has been supplied by third parties. While such information is believed to be accurate, we do not accept responsibility for any inaccuracy in such data.*



Absolute performance

Performance as at 31 Oct 2024

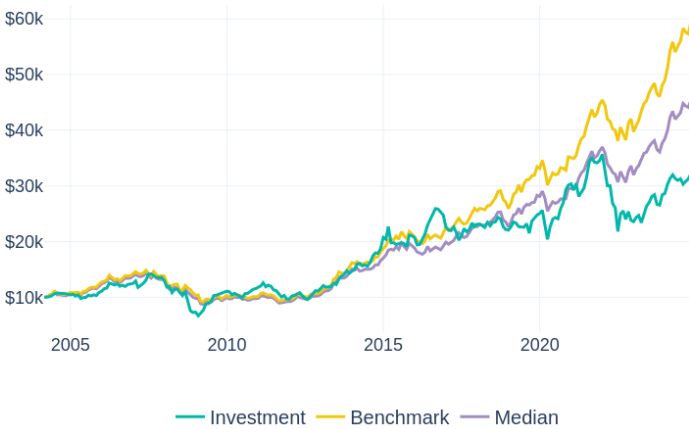
Monthly performance history (% , net of fees)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	BM YTD*	BM2 YTD**
2024	5.66%	3.44%	2.18%	-2.14%	-1.00%	0.89%	-3.10%	1.69%	1.36%	3.14%			12.46%	21.59%	15.33%
2023	3.26%	1.42%	-5.26%	5.56%	6.68%	2.50%	3.90%	1.27%	-6.10%	-0.50%	6.88%	0.95%	21.48%	23.23%	21.92%
2022	-9.22%	-7.26%	0.00%	-10.66%	-2.89%	-16.27%	14.29%	2.35%	-5.94%	5.79%	-6.12%	-1.08%	-33.88%	-12.52%	-25.92%
2021	-3.63%	4.00%	-7.69%	2.71%	2.66%	6.45%	8.71%	2.09%	-2.15%	-0.35%	1.31%	3.17%	17.46%	29.58%	19.83%
2020	2.21%	-9.96%	-11.54%	10.87%	6.23%	1.23%	-0.93%	7.55%	3.95%	8.86%	2.77%	0.77%	21.19%	5.73%	16.87%

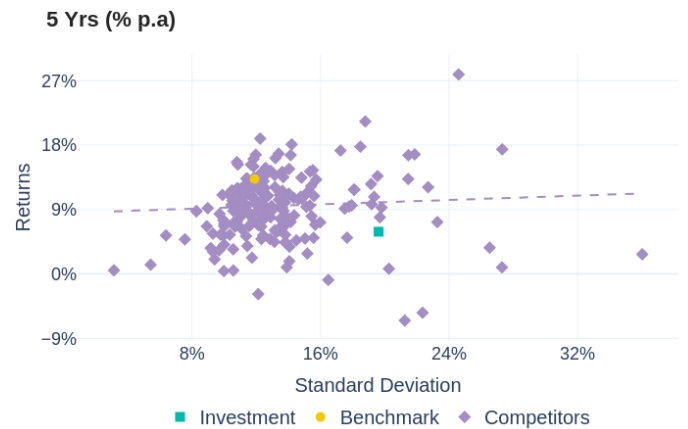
*MSCI World ex Aust \$A

**PIA Net Portfolio Returns

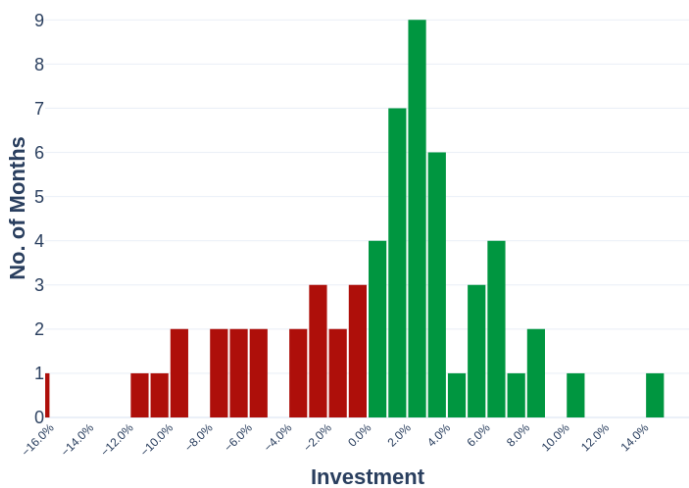
Growth of \$10,000



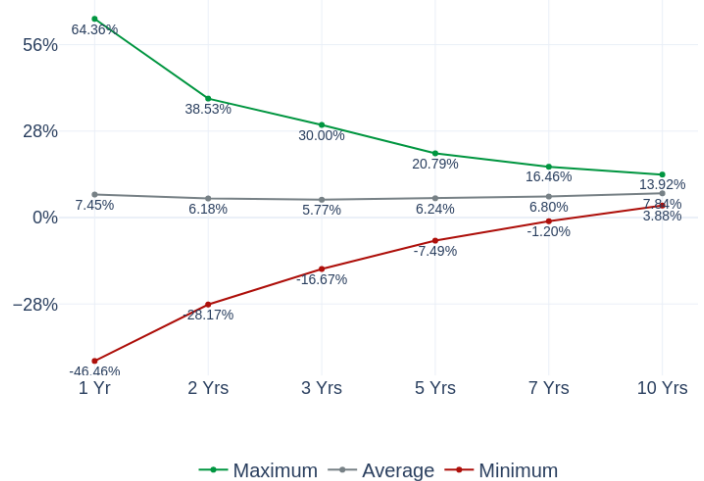
Risk / return



Monthly histogram



Minimum and maximum returns (% p.a.)





Absolute performance analysis

Instrument	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Investment	21.34%	-1.90%	5.90%	6.06%	5.82%
Benchmark	29.31%	11.39%	13.27%	13.18%	9.02%
Median	25.84%	8.66%	10.90%	11.12%	7.60%
Cash	4.41%	2.93%	1.86%	1.92%	3.48%

Ranking within sector (p.a.)

Ranking within Sector	1 Yr	3 Yrs	5 Yrs	Inception
Fund Ranking	160 / 223	186 / 196	151 / 161	32 / 32
Quartile	3rd	4th	4th	4th

Absolute risk

Instrument	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Standard Deviation (% p.a.)					
Investment	9.71%	19.64%	19.62%	17.87%	16.99%
Benchmark	8.99%	11.79%	11.90%	11.25%	11.32%
Median	8.54%	11.23%	11.19%	10.56%	10.64%
Downside Deviation (% p.a.)					
Investment	3.89%	15.04%	14.06%	12.19%	11.82%
Benchmark	3.52%	6.95%	7.08%	6.38%	6.97%
Median	3.46%	6.91%	7.00%	6.26%	6.74%

Absolute risk/return ratios

Instrument	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Sharpe Ratio (p.a.)					
Investment	1.74	-0.25	0.21	0.23	0.14
Benchmark	2.77	0.72	0.96	1.00	0.49
Median	2.51	0.51	0.81	0.87	0.39
Sortino Ratio (p.a.)					
Investment	4.35	-0.32	0.29	0.34	0.20
Benchmark	7.07	1.22	1.61	1.77	0.80
Median	6.20	0.83	1.29	1.47	0.61

Readers should note that unless otherwise indicated, all performance, consistency and risk/return data is referenced to the Zenith assigned benchmark as represented by Benchmark 1 with the LIC returns representing those attributable to shareholders (i.e. share price + dividends).

For consistency purposes, Zenith benchmarks all products categorised within our International Shares - Global (Unhedged) sub-asset class against the MSCI World ex Australia \$A Index. Accordingly, all performance and risk measurements are calculated with Zenith's assigned index. However, HL measures the Company against the MSCI World Index \$A.

Investors should note that prior to May 2021, the Company was managed by Pengana's internal investment team. As such, the Company's performance prior to this date should not be used when assessing HL's performance as the investment manager.

All commentary below is at 31 October 2024.

The Company's investment objective is to generate consistent long-term returns whilst reducing volatility and the risk of losing capital, HL aims to outperform the benchmark by 3% p.a. (before fees) over the long term.

The Company has not achieved its investment objective over the most recent three year period, materially underperforming the benchmark since HL was appointed investment manager.

The Company's volatility (as measured by Standard Deviation) has been greater than the benchmark and peers over the same timeframe.

The Company's Sharpe Ratio has been less than the benchmark over the most recent three year period, which indicates that investors have been insufficiently compensated for its risk.

Investors should be aware that HL does not target a specific level of income for the Fund, with distributions made quarterly where possible.



Relative performance

Excess returns

Statistic	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Excess Return	-7.96%	-13.29%	-7.37%	-7.12%	-3.19%
Monthly Excess (All Mkts)	41.67%	41.67%	46.67%	48.33%	50.00%
Monthly Excess (Up Mkts)	22.22%	36.36%	40.54%	38.67%	40.52%
Monthly Excess (Down Mkts)	100.00%	50.00%	56.52%	64.44%	65.26%

Capture ratios (% p.a.)

Statistic	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Downside Capture	-17.43%	151.82%	120.70%	70.18%	59.48%
Upside Capture	59.69%	75.45%	82.69%	57.79%	61.53%

Tracking error (% p.a.)

Instrument	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Investment	9.30%	14.44%	15.06%	15.75%	15.54%
Median	1.16%	1.69%	1.77%	1.51%	1.51%

Information ratio

Instrument	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Investment	-0.86	-0.92	-0.49	-0.45	-0.21
Median	-2.97	-1.62	-1.34	-1.37	-0.94

Beta statistics

Statistic	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Beta	0.55	1.14	1.06	0.78	0.68
R-Squared	0.26	0.47	0.41	0.24	0.21
Correlation	0.51	0.68	0.64	0.49	0.46

It is important to note that the Relative Performance Analysis shown above combines the Company's price returns with income reinvested and, as such, does not directly reflect the performance of the underlying portfolio.

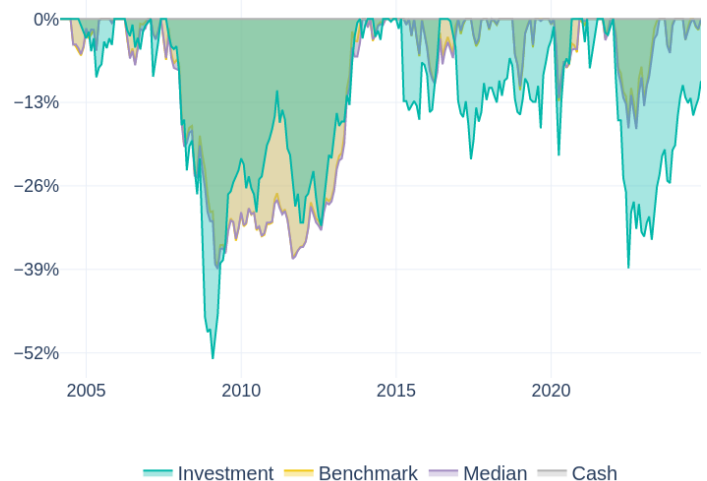
All commentary below is at 31 October 2024.

Zenith seeks to identify products that can outperform their index in greater than 50% of months in all market conditions as we believe this represents a persistence of manager skill. In addition, we view a strategy's ability to produce stronger upside capture ratios relative to downside capture ratios as an attractive feature.

The Company has not achieved either outcome since HL was appointed investment manager.

Drawdown analysis (since inception)

Drawdown analysis assesses the relative riskiness of a Fund versus the benchmark, in reference to capital preservation. The maximum Drawdown is recorded as the percentage decline in the value of a portfolio from peak to trough (before a new peak is achieved). All Drawdown analysis is calculated commencing from the inception date of the Fund in question, and Drawdown analysis for the Fund and benchmark(s) are calculated independently. That is, the largest drawdown for the Fund and benchmark(s) will not always refer to the same time period.



All commentary below is at 31 October 2024.

Disappointingly, the Company has struggled to provide downside protection during declining markets since HL was appointed investment manager.

Investors should be aware that accessing a strategy via a LIC will mean that the effectiveness of the strategy may be significantly diminished due to the Company's own trading movements. That is, investors may not be able to benefit from the portfolio's performance, as the performance of the Company is driven by market sentiment.

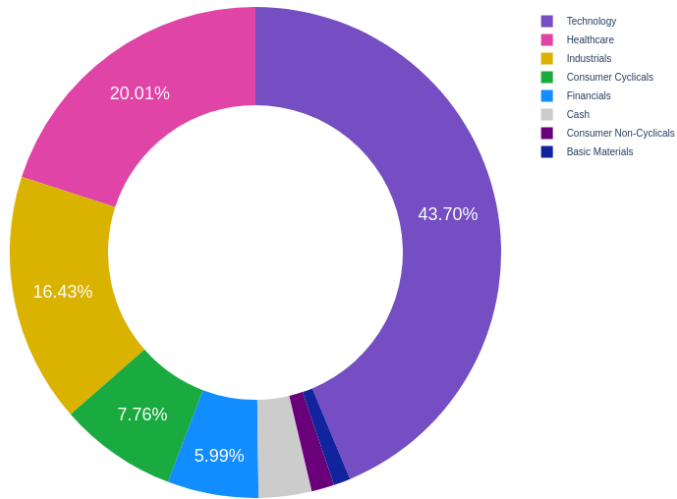


Product Exposures

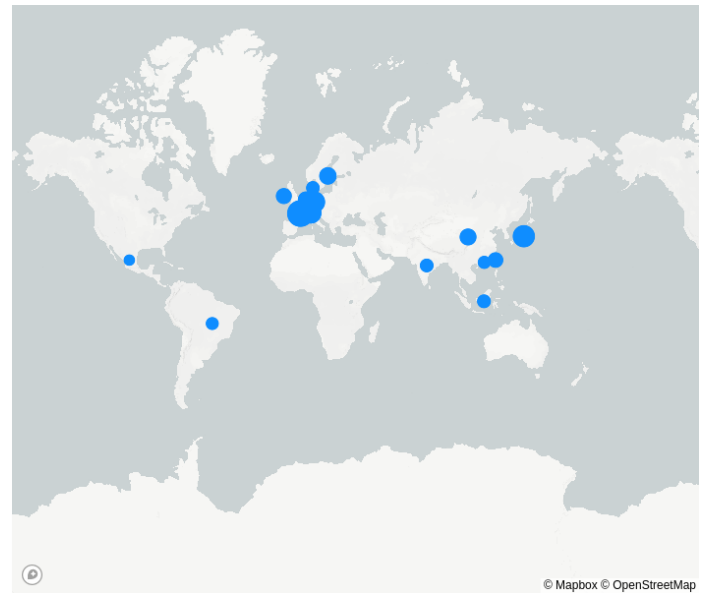
Holdings as at 30 Sep 2024

Stock	Weight	Country	Sector	Active Exposure
MICROSOFT CORP.	4.84%	United States	Technology	0.41%
META PLATFORMS INCO.	4.72%	United States	Technology	2.89%
ALPHABET INCO.	4.64%	United States	Technology	1.99%
AMAZON.COM INCO.	4.51%	United States	Consumer Cyclicals	1.96%
SCHNEIDER ELECTRIC SE	4.47%	France	Industrials	4.26%
VERTEX PHARMS.INCO.	4.34%	United States	Healthcare	4.17%
NETFLIX INCO.	2.91%	United States	Technology	2.47%
THERMO FISHER SCIEN.INCO	2.54%	United States	Healthcare	2.19%
ROCKWELL ATMTN.INCO.	2.53%	United States	Industrials	2.48%
ALCON AG	2.33%	Switzerland	Healthcare	2.25%
Total	37.83%			

Equity sector exposure



Equity country exposure





Fund commentary

Fund risks

Zenith has identified the following key risks of the Company. Although Zenith believes the risks noted are all significant, we have listed them in order of importance. In addition, we have not intended to highlight all possible risks.

Key person risk: Whilst HL's co-portfolio manager approach reduces key person risk, Zenith believes the departure of either Jingyi Li or Richard Schmidt would be considered a material loss, warranting an immediate reassessment of the Company's rating. We note that both portfolio managers are equity holders, which mitigates the risk of their departure, at least over the medium term.

Capacity risk: Excessive levels of funds under management (FUM) can inhibit a manager's ability to trade portfolio positions effectively, thereby limiting outperformance potential. As at 31 October 2024, FUM in the strategy totalled approximately \$US 13 billion. HL has indicated that the strategy's capacity is between \$US 46 billion and \$US 50 billion. Given the strategy's current levels of FUM, Zenith does not believe capacity is an issue. However, we note that HL has significant firmwide FUM invested in ex-US and emerging market equities. As such, we will continue to monitor HL's global equities exposure to ensure the Company's performance is unimpeded.

Relative performance risk: Investors should be aware that HL's quality and growth-biased investment process may lead to performance outcomes that deviate significantly from the benchmark and peers.

Emerging market risk: The Company maintains a material allocation to emerging markets. While exposure to emerging markets has the potential to enhance returns and add diversification to the Fund, it can also be a source of added volatility and may be detrimental to the preservation of capital.

Regulatory risk: All investments are exposed to the risk of changes to government policies, regulations and laws. Although Zenith is comfortable with HL's investment strategy and process, we note regulation of sustainable or ethical products is an evolving space and there have been significant developments in relation to disclosure standards for sustainability-related products.

Security/asset selection

The Company's investment universe comprises over 5,500 globally listed companies.

Securities are excluded from the Fund if they are involved in business practices deemed by Pengana to be inconsistent with responsible investment practices. It should be noted that definitions of involvement may vary according to the type and extent of exposure.

Zenith notes that HL has limited experience managing ethically restrictive mandates. However, we believe the ethical screens will have an immaterial impact on investment outcomes.

HL employs quantitative screens to source investment ideas. HL's screens focus on identifying companies with quality and growth characteristics. Metrics include:

- *Quality:* returns on assets, invested capital and equity, the variability of those returns over time, profit margins, cash flow generation capabilities, and leverage relative to book equity and to market capitalisation
- *Growth:* historical and anticipated growth in earnings, revenues, cash flows, and assets

In addition, investment ideas are identified from qualitative sources such as:

- Competitor analysis
- Customers and suppliers of existing stocks under coverage
- Industry analysis
- Investor conferences
- Professional networks

HL undertakes detailed research on approximately 550 companies, predominantly focusing on assessing company quality. Analysts undertake a detailed research process, typically two to three months in duration, meeting with management and company stakeholders. Analysts are required to evaluate 10 key criteria:

- Threat of new entrants
- Threat of substitutions
- Bargaining power of buyers
- Bargaining power of suppliers
- Intensity of industry rivalry
- Foresight and change management
- Environmental, social and governance (ESG) risk factors
- Strength of free cash flow
- Balance sheet strength
- Growth persistence and variability

Each criterion is scored out of 10. The overall scores are used as an input in the valuation and stock rating process.

HL employs a standardised, multi-staged discounted cash flow valuation methodology that forecasts 5 to 10-year periods. Alternative valuation methodologies are utilised to cross-check valuation outcomes. In addition, analysts identify investment milestones that are linked to the successful execution of company strategy. Zenith believes HL's standardised valuation approach ensures ease of comparison between all stocks under coverage.

Stock research is ultimately captured in a Buy, Hold or Sell rating, which signals to portfolio managers the analyst's view of a stock's expected excess returns over the investment horizon (5 to 7-year periods). The performance of analysts' ratings is measured annually. Approximately 450 stocks are rated by the investment team. Given HL's long-term investment philosophy, Zenith believes the assessment of analysts' ratings could be further aligned by extending the time frame.

Research is peer-reviewed by the investment team, with analysts often required to perform additional analysis or potentially revise their ratings. Zenith views the peer review process positively, as it ensures that key issues are addressed. Furthermore, we believe HL's experienced team has the requisite experience and expertise to perform this function comprehensively.



Overall, Zenith believes HL's stock selection process is comprehensive, providing a strong input for portfolio construction.

Responsible investment approach

HL has an established Responsible Investment Policy, last updated in July 2023, that guides its investment decisions.

To be in line with industry best practice, Zenith believes HL's Responsible Investment Policy should be reviewed every 12 months, at a minimum, to reflect the constantly evolving nature of responsible investing.

Further to the Company's exclusions, HL takes an active approach to environmental, social and governance (ESG) issues. ESG is evaluated as part of the team's fundamental analysis process with any concerns included in the research report on each company.

Zenith believes that this qualitative analysis of a company's operations is crucial on a forward basis, given that a company's performance with regard to ESG considerations is increasingly being reflected in the company's share price.

Overall, Zenith is comfortable with HL's approach to ESG.

Portfolio construction

The Company comprises two independent portfolios managed by Schmidt and Li. The sub-portfolios are approximately equally weighted, with rebalancing occurring when the weights of the two sub-portfolios diverge by 6% or greater.

Selecting from the list of rated stocks, Schmidt and Li are responsible for the construction of their own sub-portfolio. Whilst consideration may be given to the benchmark weights of prospective companies, position sizing in each sub-portfolio is predominantly benchmark-unaware and driven by the portfolio managers' view of:

- Company quality
- Relative valuations
- Stock liquidity
- Portfolio risk characteristics

However, each portfolio manager generally aim to hold approximately 40 positions at relatively equal weights.

When the sub-portfolios are combined, the Company is expected to hold between 35 and 75 positions. Initial positions are typically held at 1% weights and are permitted to drift to a maximum of 5%. In general, high conviction positions are a result of further additions rather than position drift.

Zenith notes that the sub-portfolios have historically had relatively limited stock overlap (approximately 30% to 40%), which is somewhat inconsistent with our expectations. Given the portfolio managers operate under the same investment philosophy and process, we would expect the sub-portfolio exposures to be materially higher. However, we acknowledge that the portfolio managers select stocks from a common list of rated stocks, which is aligned with the overarching HL quality-growth investment philosophy.

HL aims to maintain a fully invested portfolio, with the maximum cash limit set at 10%. Zenith is supportive of this approach, believing that active managers should remain fully invested and keep cash holdings to a minimum, with the asset allocation decision left to the underlying investor.

As HL does not typically disclose the underlying holdings and performance of each sub-portfolio, Zenith notes that it is difficult to assess the abilities of the underlying portfolio manager and the effectiveness of the capital allocation outcomes.

Positions are generally sold or reduced due to the following reasons:

- Valuation
- Thesis violation
- Displacement by a more attractive opportunity
- Nearing the 5% position limit

Portfolio turnover is expected to average between 20% p.a. and 40% p.a. over a market cycle, which Zenith considers to be low.

Although Zenith acknowledges the benefits of HL's multiple portfolio manager approach, portfolio manager accountability and moderation of key person risk, it is not our preferred portfolio construction method. Zenith believes this approach leads to less transparency and may affect team cohesion in periods of poor performance.

Risk management

HL operates within a disciplined framework at the stock selection stage with each portfolio manager required to invest only in stocks that are rated by the investment team. In Zenith's view, this is an inherent risk management measure as it ensures that a range of individual stock-specific risks are considered before an investment is made.

The portfolio managers are responsible for monitoring the contributions to portfolio risk, including industry risk factors, sector allocations, country exposures, style risks and stock risks.

Zenith is satisfied that HL's risk management processes are adequately monitored. However, investors should be aware that there is a significant reliance on the judgement and skill of the co-portfolio managers in mitigating risk in the Company.

Investment fees

	Fund	Sector Average
Total Fees and Costs (RG 97)	Not disclosed	0.92% p.a.
Management Fees and Costs	Not disclosed	0.81% p.a.
Transaction Costs	Not disclosed	0.03% p.a.
Performance fees	Not disclosed	0.10%
Performance fees description	15.38% of any excess return above the MSCI World Total Return Index, net dividends reinvested \$A	
Management Cost	1.23% p.a.	0.83% p.a.
Buy / Sell spread	N/A	0.15% / 0.14%

All fees and costs are inclusive of GST unless indicated otherwise. The Performance Fee shown is the performance fee disclosed in the PDS. It is calculated by taking the average performance fees charged over the last five financial years (or less if the investment or performance fee mechanism has not been in place for five financial years).

This investment is not required to disclose fees under RG 97.



The sector average management cost is based on the average management cost of all flagship International Shares - Global (Unhedged) products surveyed by Zenith.

The performance fee is subject to a high watermark, in line with standard industry practice. It is accrued each month as part of the NTA backing per share, calculated daily and paid annually. Zenith views an annual payment frequency favourably.

For any vehicle that charges a performance fee, Zenith would prefer an additional excess return hurdle (i.e. a target return greater than the index plus the management cost) and considers this best practice.

Overall, Zenith believes the Fund's fee structure is expensive, relative to peers, given its stated objectives. In addition, we believe that investors have been insufficiently compensated by way of risk-adjusted performance given the fees paid over the past three years (ending 30 June 2024).

WARNING: Zenith ratings applied to LIC/LITs do not explicitly consider prices relative to net assets and do not represent a buy/sell recommendation based on valuations.

About the fund manager

Organisation

Established in 1989, Harding Loevner (HL) is a global equities investment management firm. Headquartered in Bridgewater, New Jersey, HL was founded by Daniel Harding and David Loevner, former fund managers for the Rockefeller family. Harding and Loevner retired from day-to-day involvement with HL in 2008 and 2022, respectively. However, Loevner remains involved with the business as Chairperson of the Executive Committee.

In 2009, Affiliated Managers Group (AMG) bought a 60% stake in the firm, with 12 HL staff holding the balance. AMG is an asset management company with equity investments in a range of boutique investment management firms. AMG is not involved in the day-to-day operations of HL.

As at 31 October 2024, HL managed approximately \$US 45.9 billion firmwide.

The Fund is offered in Australia by Pengana, an Australian funds management boutique founded in 2003. Pengana is headquartered in Sydney, with offices in Melbourne, Perth and Brisbane. Pengana's goal is to find and support experienced fund managers with long track records. Pengana provides staff and support for its fund managers, leaving the investment staff responsible for the management of its funds. In June 2017, Pengana completed a merger with Hunter Hall International Limited (ASX:HHL). As a result, HHL was renamed Pengana Capital Group Limited (ASX: PCG). The combined entity offers a diversified range of equity-based strategies totaling \$A 3.35 billion in funds under management, as at 31 October 2024.

Zenith has a favourable view of the arrangement between HL and Pengana, believing that it pairs a high quality investment manager with a distribution partner that has a strong domestic footprint.

As at 31 October 2024, the Company had a market capitalisation of \$A 295.8 million.

Investment personnel

Name	Title	Industry Experience (yrs)	Tenure (yrs)	Location
Jingyi Li	Portfolio Manager	26	14	Bridgewater, USA
Richard Schmidt	Portfolio Manager	38	13	Bridgewater, USA

Primarily based in Bridgewater, New Jersey, the investment team of 31 is led by Ferrill Roll, who joined HL in 1996 and has over 42 years of investment experience. Roll was previously a co-lead portfolio manager of the strategy, relinquishing responsibilities in 2020 following his promotion to Chief Investment Officer.

Richard Schmidt and Jingyi Li are portfolio managers of the Company. Each portfolio manager is responsible for half the portfolio, which is managed independently of each other. In October 2024, Peter Baughan relinquished his portfolio management responsibilities and will retire from the firm at year-end 2024. As a result, Schmidt became a portfolio manager alongside Li. While Zenith believes Baughan's departure is a loss for the strategy, we draw comfort from Schmidt's significant experience and his long term working relationship with Li.

Joining HL in 2010, Li replaced Roll as a co-portfolio manager of the strategy in 2021. Prior to his appointment, Li served as a paper portfolio manager (fully tracked portfolio without actual allocated capital) for the strategy. Li has analyst coverage of the industrials and utilities sectors, as well as China. Zenith believes Li is a capable investor, with the requisite skills and experience to manage his portion of the Fund.

Schmidt, who joined HL in 2011. Prior to joining HL, he held equity research and portfolio management roles at Oranda Capital Management and JPMorgan Asset Management. Schmidt has research responsibilities for the consumer staples sector. Zenith notes that Schmidt served as a paper portfolio for the strategy since 2014 until his appointment to portfolio manager in October 2024, over which period he generated a respectable track record. Zenith draws comfort from Schmidt's long-term working relationship with Baughan and Li and believes the Fund remains well-placed to achieve its investment objectives.

Schmidt and Li are further supported by two paper portfolio managers, whose hypothetical portfolios may be leveraged for investment insights and opportunities.

The investment team comprises 11 dedicated analysts and 20 portfolio managers, all of which have research responsibilities. The team is spread across two offices, Bridgewater and London. Research coverage is structured along sector and regional lines. The investment team is highly experienced and long-tenured, averaging over 23 years of investment experience and over 10 years with the firm. Zenith views the team's experience and tenure positively, which ensures well considered views and consistency of the investment process.

The investment team has historically maintained a high level of stability, experiencing five departures over the past three years, including one retirement.

Remuneration for HL's investment professionals is dependent on three factors: overall firm profitability, the individual's investment results and the individual's level of teamwork and



collaboration. Portfolio managers are held accountable for their contribution to the team and overall investment process and the performance of their portfolios. Research analysts are held accountable for their stock ratings, the subsequent performance of those recommendations and for their contribution to the team. In addition, portfolio managers and analysts are eligible to participate in equity ownership, either as a limited partner or as a participant in the long-term deferred compensation program. Overall, Zenith believes that HL's incentive-based compensation arrangements are well structured and align the interests of the team with those of investors.

In Zenith's view, the investment team is well-resourced and experienced.

About the sector

Sector characteristics

International equities offer Australian investors the ability to access a broader opportunity set, with the potential to invest in segments not well represented in the Australian equity market. Given that international markets are not perfectly correlated with the Australian equity market, funds that invest internationally can provide diversification benefits to a portfolio.

The Zenith 'International Shares - Global (Unhedged)' sector consists of long-only products that invest in global equity markets. The sector incorporates both benchmark-aware and benchmark-unaware strategies that focus predominantly on larger capitalisation stocks. The sector is one of the most competitive fields in the investment landscape, based on the number of managers and strategies available to investors.

Zenith benchmarks all products in this sector against the MSCI World ex-Australia Index (Index), which corresponds with the benchmark employed by most funds in the sector. The Index is market-capitalisation weighted, resulting in companies with the largest market capitalisations receiving the highest weightings. Zenith expects rated international equity funds to outperform the Index over the long term.

The Index consists of approximately 1,352 securities listed in 22 developed markets (Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom, and the United States). As at 31 October 2024, the United States, Japan and United Kingdom represented a significant portion of the MSCI World ex-Australia Index, with each country accounting for 74%, 6% and 4% respectively. In addition, the top 10 stocks represented approximately 24% of the Index. Although the Index excludes emerging and frontier markets, many products retain mandate flexibility to invest in these markets.

Products in this sub-asset class are currency unhedged, resulting in their returns being affected by fluctuations in the Australian Dollar (AUD) relative to other global currencies.

Sector risks

Products within the 'International Shares - Global (Unhedged)' sector are exposed to the following broad risks:

Market and economic risk: A sustained downturn across international equity markets is a risk to the absolute performance of products in the sub-asset class. Additionally,

changes in economic, social, technological or political conditions, as well as market sentiment, could also lead to negative fund performance. Investors adhering to a fund's prescribed investment timeframe can significantly reduce this risk.

Australian dollar (AUD) currency risk: The AUD has historically experienced declines during weaker market environments, and appreciation in market upturns. A hedged global equities fund is likely to benefit relative to an unhedged fund in periods when the AUD depreciates. Conversely, an unhedged global equities fund is likely to benefit relative to hedged funds in periods where the AUD depreciates.

Zenith believes that the currency impact on performance will be minimal over the long term and therefore does not advocate retail investors making active currency decisions based on near-term currency predictions. For investors who are concerned about the short-term risks associated with taking fully unhedged or hedged currency positions, Zenith suggests blending hedged and unhedged global equity exposures to reduce short-term volatility.

Specific security risk: This is the risk associated with an individual security. The price of common shares in a company may be affected by unexpected changes in company operations, such as changes in management or the loss of a significant customer.

Liquidity risk: This is the risk that a security or asset cannot be traded promptly, due to insufficient trading volumes in equity markets. When trading volumes are low, buyers/sellers can significantly impact the price of a security when entering or exiting a position.

Style bias risk: International equity managers employ different investment styles such as Growth, Value or Neutral (a combination of Value and Growth). Each style is conducive to certain market conditions. Investors adhering to a fund's prescribed investment timeframe can significantly reduce this risk.

Capacity risk: High levels of funds under management (FUM) can present additional challenges to an equity manager. High FUM has the potential to restrict a manager's ability to trade efficiently and/or be forced to disclose substantial shareholdings to the market (more common in smaller companies).

Regulatory Risk: All investments risk being affected by changes to government policies, regulations and laws. Security prices in which funds may have exposure are also subject to certain risks arising from government intervention across international equity markets. Such regulation or intervention could adversely affect fund performance.

Zenith rating

Report certification

Date of issue: 28 Nov 2024

Role	Analyst	Title
Analyst	Varun Thakkar	Investment Analyst
Sector Lead	Quan Nguyen	Head of Equities



Association & relationship

ASIC Regulatory Guide RG79.164 requires Research Houses to disclose certain associations or relationships that they may have with a product issuer. We may receive remuneration from an issuer or investment manager for subscription to our other research/ data services or the research/ data services of our related entities. Conflict management arrangements are in place where we or our related entities provide research services to the product issuer or financial advisory businesses who provide financial planning services to investors and are also associated entities of product issuers. This is in accordance with the Zenith Group's Conflict of Interests Policy. Further details in relation to our relationships and associations are available on request.

Rating history

As At	Rating
28 Nov 2024	Recommended
07 Jun 2024	Recommended
29 Nov 2023	Recommended
30 Nov 2022	Recommended
24 Nov 2021	Recommended
06 Aug 2021	Recommended
26 Apr 2021	Not Rated - Screened Out
25 Mar 2021	Redeem
02 Jun 2020	Recommended
23 May 2019	Recommended

Last 5 years only displayed. Longer histories available on request.

In March 2021, Zenith implemented a new ratings methodology for products classified as Traditional Index. Any rating issued from this date forward for Traditional Index products only reflect this change in methodology, with the relevant Traditional Index ratings being Index Approved, Index Recommended and Index Highly Recommended. Ratings issued for Traditional Index products prior to March 2021 are retained for historical purposes in line with our regulatory requirements and were issued in line with Zenith's Fund Research Methodology. Further information in relation to Zenith's Traditional Index Research Methodology and Traditional Index Ratings can be found on the Zenith website.



Disclaimer and disclosure

Zenith Investment Partners (ABN 27 103 132 672) is the holder of Australian Financial Services Licence 226872 and is authorised to provide general financial product advice. This Product Assessment Report (report) has been prepared by Zenith exclusively for Zenith clients and should not be relied on by any other person. Any advice or rating contained in this report is limited to General Advice for Wholesale clients only, based solely on the assessment of the investment merits of the financial product. This report is current as at the date of issue until it is updated, replaced or withdrawn and is subject to change at any time without notice in line with Zenith's regulatory guidelines. Zenith clients are advised to check the currency of reports and ratings via Zenith's website for updates and should also verify information in relation to the fund with the relevant Fund Manager. Any advice contained in this report has been prepared without taking into account the objectives, financial situation or needs of any specific person who may read it, including target markets of financial products, where applicable. It is not a specific recommendation to purchase, sell or hold the relevant product(s). Investors should seek their own independent financial or tax advice, obtain a copy of, and consider any relevant PDS or offer document and consider the appropriateness of this advice in light of their own objectives prior to making any investment decision. Zenith charges an upfront flat fee to the Product Issuer, Fund Manager or other related party to produce research on funds that conform to Zenith's Research Methodology. Zenith's fee and Analyst remuneration are not linked to the rating outcome in any way. Views expressed in Zenith reports accurately reflect the personal, professional, reasonable opinion of the Analyst who has prepared the report. Zenith may also receive a fee for other non-research related services such as subscription fees for Zenith's research services and/or for the provision of investment consultancy services. Conflicts management arrangements are in place where Zenith provides research services to financial advisory businesses who provide financial planning services to investors and are also associated entities of the product issuers, with any such conflicts of interest disclosed within reports as appropriate. Full details regarding such arrangements are outlined in [Zenith's Conflicts of Interest Policy](#).

Zenith's research process seeks to identify investment managers considered to be the 'best of breed' through a comprehensive, multi-dimensional selection process. Zenith utilises both quantitative and qualitative factors in its ratings models. Models maximise commonality across different asset classes while retaining flexibility for specialist asset classes and strategies. The selection process is rigorous in both its qualitative and quantitative analysis and each component is equally weighted. Zenith does not manage any proprietary assets and as such Zenith is able to choose investment managers with absolute independence and objectivity. More detailed information regarding Zenith's fund research methodology and Zenith's traditional index research methodology, coverage and ratings is available on Zenith's website at [Fund Research Methodology](#) and [Traditional Index Research Methodology](#).

This report is subject to copyright and may not be reproduced, modified or distributed without the consent of the copyright owner. The information contained in this report has been prepared in good faith and is believed to be reliable at the time it was prepared, however, no representation, warranty or undertaking is given or made in relation to the accuracy or completeness of the information presented in this report. Except for any liability which cannot be excluded, Zenith does not accept any liability, whether direct or indirect arising from the use of information contained in this report. Past performance is not an indication of future performance.

Third Party data may be sourced from Financial Express, Refinitiv, Bloomberg and/or MSCI. Third party data and content used in this document has not been independently verified by Zenith and Zenith provides no warranty, representation or responsibility to update this document. Third Party data is the intellectual property of that third party and must not be reproduced, stored or transmitted without their consent.

Full details regarding the methodology, ratings definitions and regulatory compliance are available at [Fund Research Regulatory Guidelines](#).

Zenith is not required to be licensed under New Zealand law or be registered on the FSPR. Zenith has not engaged or authorised any party to provide financial advice on its behalf to New Zealand investors.

Zenith ratings and research are prepared by Zenith and are not connected in any way to research and ratings prepared by any of our related entities.

This report refers to the Australian unit trust for the fund, and the fund and benchmark returns are all in AUD.

© 2024 Zenith Investment Partners. All rights reserved.

Zenith has charged Harding Loevner a fee to produce this report.