



# Product Review

## Pengana Axiom International Ethical Fund

ISSUE DATE 27-04-2023

### About this Review

ASSET CLASS REVIEWED	GLOBAL EQUITIES
SECTOR REVIEWED	GLOBAL LARGE CAP
SUB SECTOR REVIEWED	FUNDAMENTAL GROWTH
TOTAL FUNDS RATED	48

### About this Fund

ASIC RG240 CLASSIFIED	NO
FUND REVIEWED	PENGANA AXIOM INTERNATIONAL ETHICAL FUND
APIR CODE	HOW0002AU
PDS OBJECTIVE	TO OUTPERFORM THE BENCHMARK OVER THE MEDIUM TO LONG TERM
INTERNAL OBJECTIVE	TO OUTPERFORM THE BENCHMARK, AFTER FEES, OVER ROLLING FIVE-YEAR PERIODS
STATED RISK OBJECTIVE	NO STATED RISK OBJECTIVE
DISTRIBUTION FREQUENCY	SEMI-ANNUALLY
FUND SIZE	\$291M (MARCH 2023)
FUND INCEPTION	01-07-2017
ANNUAL FEES AND COSTS (PDS)	1.4% P.A.
PERFORMANCE FEE	0%
RESPONSIBLE ENTITY	PENGANA CAPITAL LIMITED

### About the Fund Manager

FUND MANAGER	AXIOM INVESTORS LLC
OWNERSHIP	100% EMPLOYEE OWNED
ASSETS MANAGED IN THIS SECTOR	US\$18BN (JAN. 2023)
YEARS MANAGING THIS ASSET CLASS	24

### Investment Team

PORTFOLIO MANAGER	BRADLEY AMOILS
INVESTMENT TEAM SIZE	10
INVESTMENT TEAM TURNOVER	LOW-MOD
STRUCTURE / LOCATION	PM & ANALYSTS / GREENWICH (CONNECTICUT, US)

### Investment process

STYLE	GROWTH
MARKET CAPITALISATION BIAS	LARGE
BENCHMARK	MSCI ALL COUNTRY WORLD TOTAL RETURN INDEX AUD
TYPICAL NUMBER OF STOCKS	45-75
STOCK LIMIT	MAX. 6% OR 1.5X BENCHMARK
SECTOR / INDUSTRY LIMITS	MAX. 40% (IT: MAX. 45%)
COUNTRY / REGION LIMITS	MAX. 30% (US: 0.5-1.5X BENCHMARK)
EMERGING MARKETS LIMIT	MAX. 25%
CURRENCY EXPOSURE	UNHEDGED

### Fund rating history

APRIL 2023	RECOMMENDED
APRIL 2022	RECOMMENDED
OCTOBER 2021	RECOMMENDED

### What this Rating means

The 'Recommended' rating indicates that Lonsec has strong conviction the financial product can generate risk adjusted returns in line with relevant objectives. The financial product is considered an appropriate entry point to this asset class or strategy.

### Strengths

- Senior members of the investment team are considered to be high-quality and well-experienced.
- The Manager has a long track record of successfully implementing the underlying growth-biased investment process through multiple market cycles.
- There is notable alignment, in general, via co-investment in Axiom's strategies and equity ownership by senior members of the investment team.

### Weaknesses

- While general ESG scoring features in the process, ethical considerations are applied through negative screening, which Lonsec consider to be less robust than other ethical-labelled fundamental peers.
- The Manager currently manages a large number of different strategies, albeit all follow the same investment philosophy and the lead portfolio manager is solely focused on this strategy.
- The management costs of the Fund are considered high relative to peers.

### Fund Risk Characteristics

	LOW	MODERATE	HIGH
BUSINESS SUSTAINABILITY RISK		●	
CAPITAL VOLATILITY			●
FOREIGN CURRENCY EXPOSURE			●
SECURITY CONCENTRATION RISK			●
SECURITY LIQUIDITY RISK		●	

Risk categories are based on Lonsec's qualitative opinion of the risks inherent in the financial product's asset class and the risks relative to other financial products in the relevant Lonsec sector universe.

### BIometrics

#### Aggregated risks

	1	2	3	4	5	6	7
STD RISK MEASURE						●	

A Standard Risk Measure score of 6 equates to a Risk Label of 'High' and an estimated number of negative annual returns over any 20 year period of 4 to less than 6. This is a measure of expected frequency (not magnitude) of capital losses, calculated in accordance with ASFA/FSC guidelines.

	LOW	MODERATE	HIGH
RISK TO INCOME		●	

We strongly recommend that potential investors read the product disclosure statement Lonsec Research Pty Ltd ABN 11 151 658 561 • AFSL No. 421 445 • This information must be read in conjunction with the warning, disclaimer, and disclosure at the end of this document. This report supersedes all prior reports.

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## Features and benefits

	LOW	MODERATE	HIGH
COMPLEXITY		●	
ESG		●	

## Fee profile

	LOW	MODERATE	HIGH
FEES VS. UNIVERSE			●
FEES VS. ASSET CLASS			●
FEES VS. SUB-SECTOR			●

Fee BIometrics are a function of expected total fee as a percentage of expected total return.

## What is this Fund?

- The Pengana Axiom International Ethical Fund (the 'Fund') is an actively managed, long-only, 'benchmark unaware' global equities product that is relatively concentrated, holding predominately large-cap stocks. The investment process includes industry-based exclusions with an ethical overlay, investing in both developed and emerging markets. The Fund seeks to outperform the MSCI All Country World Total Return Index AUD (the 'Benchmark'), after fees, over rolling five-year periods.
- Pengana Capital Limited ('Pengana') is the Responsible Entity ('RE') of the Fund and is therefore accountable for all aspects, including marketing and distribution. Pengana has appointed Axiom Investors ('Axiom' or the 'Manager') as the investment manager for the Fund.
- The Manager adopts a fundamental, bottom-up, dynamic growth investment philosophy. The Manager's dynamic growth philosophy can be characterised as the intersection of three key elements – positive change (60%); sustainability of growth (20%); and valuation (20%). Rather than focusing on backward-looking financial metrics, the Manager seeks to identify forward-looking positive changes, accelerations and inflections in an enterprise's key operational catalysts that could ultimately lead to subsequent improvements in reported financial results or impact earnings projections over the medium term.
- The Manager seeks to avoid investing in businesses that are currently involved in activities that are unnecessarily harmful to people, animals or the environment. The Manager utilises a negative screening process that excludes investment in companies that derive operating revenues of greater than 5-15% from direct and material business involvement in these sectors.
- The Fund's negative screens include companies with material direct exposure to the production and/or distribution of alcohol, adult content, animal cruelty, fossil fuels, gambling, genetically modified organisms ('GMO'), human rights abuses and exploitation, mining, nuclear, old growth forest logging, tobacco, uranium mining, weapons and securities from issuers on the UN sanctions list. While its application brings added credibility to the ESG characteristics of the Fund, Lonsec considers the depth of negative screening to be an important consideration for more ethically motivated investors given the materiality threshold of the Fund's exclusionary framework that is applied to various industries.

- The Fund is relatively concentrated at between 45-75 stocks and is managed to broad absolute limits across both sectors and regions. Emerging markets are permitted to a maximum of 25%. The Fund is expected to display a large-cap bias, with companies requiring a minimum market capitalisation of \$250m for developed markets and \$1bn for emerging market companies. The Manager adopts a sustainable growth at a reasonable price ('GARP') investment style, seeking companies with structural growth that are trading at attractive valuations. Therefore, the Fund is expected to display a notable 'growth' bias.
- As the Fund's investments in global equities are unhedged and a rise in the Australian dollar relative to other currencies will negatively impact returns. There is an equivalent fully hedged version of the Fund, the Pengana Axiom International Ethical Fund (Hedged) (APIR code: HHA0002AU), which is also rated by Lonsec.
- The Fund's PDS dated 15 September 2022 disclosed Annual Fees and Costs ('AFC') totalling 1.39% p.a. This value comprises (1) Management Fees and Costs of 1.35% p.a., and (2) Net Transaction Costs of 0.049% p.a. In line with RG97, some fees and costs have been estimated by the issuer on a reasonable basis. Actual fees and costs may vary from these estimates, particularly with respect to net transaction costs.

## Using this Fund

**This is General Advice only and should be read in conjunction with the Disclaimer, Disclosure and Warning on the final page.**

- Lonsec notes that the Manager has produced a Target Market Determination ('TMD'), which forms part of the Responsible Entity's Design and Distribution Obligations for the Fund. Lonsec has collected the TMD that has been provided by the Manager and notes that this should be referred to for further details on the Target Market Summary, Description of Target Market and Review Triggers.
- The Fund provides investors with exposure to global equity markets and accordingly, may experience both positive and negative, at times sharp movements, in the value of capital invested. Lonsec recommends that equity investments, given their volatility, are best suited for investors with an investment time horizon of at least five years.
- A 'growth' investment style will typically entail a manager investing in stocks that are expected to exhibit higher earnings growth than the broader market. Given their nature, 'growth' styles are expected to deliver their strongest relative performance during upward-trending markets. Lonsec considers the Fund to be suitable for blending with other global equities strategies including 'core', 'value', absolute return and small-cap products.
- It is recommended that investors pay particular attention to the level of Ethical/SRI/ESG screening incorporated in the investment process as this may be a material consideration for ethically motivated investors. The Fund includes a broad range of exclusions and therefore is expected to result in significant sectoral deviations from the Benchmark.

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## Suggested Lonsec risk profile suitability

SECURE DEFENSIVE CONSERVATIVE BALANCED GROWTH HIGH GROWTH



For guidance on appropriate asset allocations and risk profiles, refer to the latest Lonsec Strategic Asset Allocation Review and Risk Profile Definitions on our website.

## Changes Since Previous Lonsec Review

- Dean Bumbaca has been promoted to Associate Portfolio Manager to the Axiom international equity strategy, effective April 2022. Previously, Bumbaca served as a research analyst at the firm.
- There have been no material changes to investment process since Lonsec's last review with the Manager.

## Lonsec Opinion of this Fund

### People and resources

- Andrew Jacobson founded Axiom in 1998 and serves as CEO and CIO to provide overall strategic and operational direction for the firm. Jacobson has over 35 years of investment experience. Additionally, as a portfolio manager, Jacobson leads the Manager's International and International Opportunity, Emerging Markets and Emerging Market World, and Concentrated Global Growth equity strategies.
- The Fund is managed by Lead Portfolio Manager, Bradley Amoils who joined the firm in 2002 and has managed the global equity strategy since its inception in 2004. Amoils has over 32 years of investment experience and Lonsec considers him to be a high-quality investor, possessing in-depth knowledge of the investment process.
- Amoils is primarily supported by a dedicated portfolio management team of ten, led by Director of Research and Portfolio Manager Jonathan Ellis, who has over 24 years of investment experience. The investment team's coverage is structured along sector lines and Lonsec notes the team's generalist analyst, Dean Bumbaca, was promoted to Associate Portfolio Manager in April 2022 and will no longer be directly dedicated to the research effort of the Fund. The firm's broader investment team numbers 31 including five traders and Lonsec considered it to be well-experienced and appropriately resourced to manage the Manager's ten strategies, which all follow the same investment philosophy.
- All investment team members are centrally located in the Manager's Greenwich (Connecticut, US) head office. Lonsec believes the centralised team should facilitate a greater degree of cross-fertilisation of ideas and more robust discussions relative to geographically dispersed teams. The narrow focus allows analysts to conduct detailed and thorough research within their respective sectors and regions, which may lead to stronger conviction and differentiated investment perspectives.
- Lonsec believes there is a strong alignment of interest between the investment team and end investors. All portfolio managers including Jacobson, Amoils and Ellis are partners within the business. Non-partners participate in a long-term deferred compensation plan that is linked to investment performance and the achievement of mutually agreed-upon annual goals. Additionally, portfolio managers have a mandatory investment in the strategies managed that are fully

vested after a five-year period, with analysts and non-investment staff also encouraged to invest.

- Lonsec considers key person risk to be high with Amoils considering he is the lead portfolio manager of the Fund with ultimate accountability for its performance. Key person risk associated with Jacobson and Ellis is considered to be moderate noting their other responsibilities. That said, the departure of either would likely necessitate a review of the Fund, although Lonsec notes the structured investment process as a mitigating factor.

### Research and portfolio construction

- Lonsec considers the Manager's investment process to be highly structured, robust and thorough. The Fund invests in the Manager's underlying global equity strategy, which in turn 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 Manager is required by Pengana to apply a negative ethical screen, in conjunction with incorporating its usual ESG considerations into decision-making. Lonsec notes that the Fund's negative screens are reasonably standard exclusions for ethical-labelled fundamental peers.
- The Manager believes that ESG factors are material to achieving investment outperformance and managing investment risk, and significant investment opportunities arise when companies improve their ESG characteristics. ESG is incorporated into the Manager's proprietary risk and return rating framework, which ultimately influences position sizing and proxy voting. That said, the Manager will invest in stocks that have an improving ESG footprint, which may not meet strict hurdles set by more ethical-orientated peers.
- Apart from the non-investible sectors based on the applied ethical screens, the Manager does not use additional screens or quantitative tools at the front end of their research process. Rather, the focus is on collecting, synthesising and calibrating operational data points to identify a potential gap between the Manager in-depth research and consensus expectations. As a result, the Manager requires coverage by two or more sell-side analysts for the company to be considered for investment.
- The Manager consistently tracks these operational data points to identify quantifiable accelerations in a specific area. The Manager's sources of research and data are publicly available, such as news items, company meetings and sell-side analyst data. Rather than seeking out unique information sources, the Manager applies a proprietary method to synthesise the information in its proprietary database – Axware.
- The Manager's focus is on the forward-looking operational drivers of an enterprise with an emphasis on dynamic growth. By explicitly defining the fundamental drivers of their investment thesis, the Manager incorporates real-time data that is collected and processed manually by the team to monitor the development of portfolio holdings and ensure the investment thesis remains intact. The fundamental investment thesis and relevant supporting data is translated into a risk and return

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rating for each stock that incorporates between 10-12 fundamental elements, which typically fall into five general categories – company, industry, secular, macroeconomic and country – for each investment considered or held. Buy candidates are those companies where the key drivers are exceeding investor expectations. For each investment, the Manager ensures that the valuation is appropriate given the magnitude of the changes in the key drivers, i.e. the higher the present valuation, the larger the improvement in the key drivers required before purchase. Lonsec believes the investment process to be well-structured and repeatable.

- Investment ideas are primarily sourced by both portfolio managers and analysts, and a significant amount of time is focused on gathering and analysing data sources, which feed into Axware. New ideas are typically identified based on specific positive fundamental developments in a company's operations, while the remainder arises from database screens. The Manager also incorporates macroeconomic views into the analysis of a company as such factors can be impactful to underlying earnings. That said, macroeconomic views are not expected to be the primary driver of portfolio decisions. Rather, will serve as a headwind or tailwind to the Manager's bottom-up investment thesis. Lonsec considers the incorporation of macroeconomic views as pragmatic in the bottom-up research process.
- The Portfolio Manager constructs a portfolio ranging between 45-75 stocks. The objective of the portfolio construction stage is to build portfolios that are notably differentiated from broader market indices, with high potential upside and downside protection. In terms of stock and position weightings, the Manager uses their fundamental proprietary ratings framework to formally assess enterprise risk and return. The rating assigned to each stock ultimately determines the appropriate weighting, which ranges between 1-4%, with the highest conviction ideas entering the portfolio at the largest weight. Once a stock enters the portfolio, the Manager will continuously monitor and adjust its position sizing where necessary, ensuring appropriate diversification across sectors, countries and regions. Amois has ultimate decision-making authority for portfolio construction. Lonsec believes the Manager's approach to be logically appealing and offers a repeatable link between individual stock analysis and the final portfolio.

### ESG integration

- Lonsec's ESG integration assessment considers how rigorous, robust and structured the ESG process for the Fund is as well as how well it integrates into the overall investment process and the Manager's overall policy and reporting framework. The assessment is not intended to assess the underlying holdings of the Fund's portfolio or the Manager's adherence to any form of impact, green / sustainable or ethical standards.
- At the corporate level, Lonsec views the Manager's overall ESG policy framework and disclosure as slightly lagging peers. The Manager has an articulated commitment to the integration of ESG within their investment process with evidence of

public positioning and a policy framework. The ESG policy together with proxy voting and engagement policies are freely available on the firm's website. The level of disclosure with respect to proxy voting and engagement policies lacks depth compared to peers. Reporting on voting and engagement outcomes is limited to summaries and considered behind peers.

- The Manager has indicated that their Responsible Investment style is "Ethical". Lonsec highlights that this ESG review is not a measure of how ethical the ultimate portfolio is but is an assessment of the process the Manager undertakes to assess the degree to which environmental, social and governance factors are considered when assessing investment opportunities. This may be a separate and additional capability on top of any ethical screening. Lonsec recommends investors review the exclusions and materiality thresholds applying to each exclusion to ensure an alignment with any ethical requirements. With a primary ESG style of "Risk or Value" Managers will determine inclusion based on the balance of overall risk, including ESG risk, and potential return. As a result, this approach may mean that lower-quality ESG companies may be included if the return potential is sufficient and this may conflict with some clients' perception of what a strong ESG process would deliver.
- Within the management of this specific Fund, Lonsec notes:
  - The Manager has an appropriately structured approach to the collection and use of ESG-specific data. They access multiple data providers and underlying data feeds into research models. Data collection and data storage is robust and supports strong compliance checking.
  - Lonsec considers the Manager's overall ESG research depth and rigour to be adequate. Research is undertaken in a structured manner and storage and sharing are robust. Proprietary ESG scoring is an output of the review process.
  - There are clear links from the Manager's research to the stock selection process through the Managers incorporation of ESG factors in their price targets. This adjustment is applied on using a standardised model enhancing appropriate calibration of ESG incorporation.
  - While there is some high-level monitoring of ESG characteristics of the portfolio this plays no structured role in overall portfolio construction. There are no ESG-based limits or targets in place for the Fund.
  - The Manager demonstrated a strong engagement program and a structured approach driven by a materiality framework. Engagements are documented with clear objectives set and outcomes tracked. The Manager can demonstrate clear ESG-based engagement outcomes.
  - Portfolio transparency is industry leading and ESG-based compliance monitoring is seen as appropriate. Pleasingly voting on the Fund is directed by the Fund's portfolio manager directly.

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## Risk management

- Lonsec considers risk management to be embedded within the Manager's fundamental, bottom-up investment process. While the Manager adopt a 'benchmark unaware' approach, there are appropriate portfolio constraints in place to influence overall positioning. These include stock and diversification, and liquidity limits. Risk, including volatility and drawdown, is managed at both the individual stock level and the overall portfolio level.
- The Manager's framework for portfolio construction and allocation of capital is dynamic, with the risk-adjusted return potential being continuously re-evaluated as new information becomes available or as valuations change. If the risk-adjusted return potential incrementally deteriorates, the Manager may trim or completely sell out of a position.
- Portfolio exposures, sources of risk and excess return, Value at Risk ('VAR') and Tracking Error are also monitored daily. Lonsec considers the Manager's level of risk management to be adequate.

## Capacity management

- As at 31 January 2023, Axiom managed US\$18bn across a range of US, international, global, emerging markets and small-cap equity strategies. The Manager has advised that the estimated capacity of the global equity strategy is fluid and based on the market liquidity of the strategy. Whilst Lonsec does not consider capacity an issue at this stage, believing the Fund has ample headroom, some firmer guidance in this regard would be welcomed.

## Fees

- Lonsec considers the total fee load for the Fund (AFC of 1.4% p.a.) as expensive relative to Lonsec's global equity universe.
- The Fund does not have a performance fee.

## Product

- The Fund is a vanilla, long-only, listed global equities strategy. Hence, Lonsec does not consider it to be operationally challenging to implement. Additionally, the Manager employs high-quality 'tier 1' service providers, including the Fund's Responsible Entity ('RE'), Pengana Capital Limited. Lonsec notes this RE relationship has been stable since the inception of the Fund and there have been no issues. The buy/sell spread is 0.15%/0.15% and net transaction costs disclosed under RG97 reporting regime are 0.049% p.a., thus Lonsec considers the buy/sell spreads to be operating reasonably effectively, albeit will remain a watchpoint.

## Performance

- Lonsec highlights that Axiom Investors was appointed as investment manager for the Fund on 5 May 2021. Accordingly, the Fund's performance prior to this date is not reflective of the current Manager. Going forward, Lonsec believes the Fund's performance should largely reflect the Manager's underlying Global Equity strategy.
- The Fund aims to outperform the MSCI All Country World Total Return Index AUD ('the Benchmark'), after fees, over rolling five-year periods. Lonsec notes that the underlying global equity strategy has been operating since 2004. Based on simulated data provided by the Manager, the underlying strategy's

long-term track record has been adversely impacted by notable short-term performance outcomes.

- The Fund delivered -16.8% over the year to 31 January 2023 to underperform the Benchmark by 8.8% and the peer Median by 5.2%. Performance over this period was largely impacted by the Manager's notable 'growth' bias, with rising inflation globally and subsequent interest rate rises creating a headwind for this style. Key contributors to performance for the year were investments in Hermes, Gartner and Samsonite whilst investments in Tesla, SVB and Adobe were the key detractors.
- Over the three- and five-year periods to 31 January 2023, the underlying strategy delivered a net return of 3.0% p.a. and 7.6% p.a. to underperform the Benchmark by 2.0% p.a. and 0.9% p.a., respectively. Thus, the underlying strategy has failed to achieve its investment objective over the five-year period.

## Overall

- Lonsec has maintained the Fund's 'Recommended' rating in its most recent review. Supporting the rating is Lonsec's conviction in the senior members of the investment team and the highly structured, robust and thorough research process. Lonsec is also of the view that the Manager, despite being recently appointed to manage the Fund, has a successful long-term track record of implementing the investment strategy through multiple market cycles.
- Dampening Lonsec's conviction is the Manager's exclusions-based ethical approach, which is considered less true-to-label than more ethically-focused fundamental peers. Investors with a deep ethical value set may find some peers to be more aligned due to the materiality threshold applied to excluded securities. Furthermore, the Fund is considered expensive relative to global equity peers.

## People and Resources

### Corporate overview

Axiom Investors is a specialist Global Equity investment manager, based in Greenwich (Connecticut, US). The firm was founded in 1998 and is 100% employee owned. As at 31 January 2023, the firm had total funds under management ('FUM') of US\$18bn.

Pengana Capital Limited ('Pengana') is the Responsible Entity ('RE') of the Fund and is responsible for all aspects including marketing and distribution. Pengana is a wholly owned subsidiary of Pengana Capital Group Limited (ASX:PCG), a diversified funds management group founded in 2003 and headquartered in Sydney. As at 28 February 2023, Pengana had total FUM of \$3bn.

Pengana has appointed Axiom Investors as the investment manager for the Fund.

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## Size and experience

NAME	POSITION	EXPERIENCE INDUSTRY / FIRM
BRADLEY AMOILS	LEAD PORTFOLIO MANAGER	32 / 21
ANDREW JACOBSON	CEO / CIO / CO- PORTFOLIO MANAGER	35 / 25
JONATHAN ELLIS	DIRECTOR OF RESEARCH / PORTFOLIO MANAGER	25 / 12
CARL BROWN	RESEARCH ANALYST – HEALTHCARE	29 / 7
ANNA BROWNING	RESEARCH ANALYST – INDUSTRIALS & MATERIALS	20 / 4
STEVEN ESPINOSA	RESEARCH ANALYST – INFORMATION TECHNOLOGY & COMMUNICATIONS	23 / 9
TYLER GAYLORD	RESEARCH ANALYST – FINANCIALS	21 / 11
ALEXANDER HARRISON	RESEARCH ANALYST – CONSUMER	23 / 9
ALEXIS KOKOLIS	RESEARCH ANALYST – CONSUMER	18 / 8
DAVID SCHNEIDER	RESEARCH ANALYST – INFORMATION TECHNOLOGY & ENERGY	19 / 16

**Bradley Amoils** is the lead portfolio manager of the Fund and the ultimate decision maker. Amoils joined the firm in 2002 and has over 31 years of investment experience. Prior to joining Axiom, Amoils was a portfolio manager at American Century Investments, where he co-managed their global growth equity strategies. Previously, he was a securities analyst at Oppenheimer Funds, Inc. and a research analyst at Clay Finlay Asset Management.

**Andrew Jacobson** founded Axiom in 1998 and serves as CEO and CIO to provide overall strategic and operational direction for the firm. Jacobson has over 35 years of investment experience. Prior to founding Axiom, Jacobson was Executive Vice President at Columbus Circle Investors, a unit of PIMCO Advisors LP, where he developed and managed Columbus Circle's international growth equity strategy. He also worked as an analyst at Booz Allen & Hamilton's international investment advisory group in New York, as well as for the venture capital firm Apax Associates in Paris.

**Jonathan Ellis** is Director of Research and a portfolio manager, positions he has held since 2019. Ellis has over 25 years of investment experience. Prior to joining Axiom, Ellis was a senior equity analyst at Bank at America Merrill Lynch, and prior to that, was an associate at Pershing LLC.

## Team structure

The broader investment team numbers 31 professionals, who are centrally based in Greenwich (Connecticut, US). The team comprises 11 portfolio managers, two portfolio research analysts, seven global sector analysts, six research associates and five traders.

## Remuneration

Axiom provides long-term equity and equity-linked compensation incentives to align staff to the long-

term investment success of end investors. Portfolio manager and analyst variable remuneration is linked to financial product performance and achievement of other mutually agreed upon annual goals.

## Research Approach

### Overview

RESEARCH PHILOSOPHY	FUNDAMENTAL, BOTTOM-UP
TARGET COMPANY	COMPANIES THAT ARE – DYNAMICALLY GROWING; CHANGING FOR THE BETTER, MORE RAPIDLY THAN GENERALLY EXPECTED; AND UNDERVALUED, SUCH THAT THE POSITIVE CHANGE IS NOT YET REFLECTED IN THE SHARE PRICE
MINIMUM MARKET CAPITALISATION	US\$1BN
NUMBER OF STOCKS IN MANAGER'S UNIVERSE	APPROXIMATELY 2,250
NUMBER OF STOCKS FULLY MODELLED/RESEARCHED	150
RESEARCH INPUTS	PUBLICLY AVAILABLE SOURCES, E.G. NEWS ITEMS, COMPANY MEETINGS, SELL-SIDE ANALYST DATA
BROKER RESEARCH	STOCKS REQUIRED TO BE COVERED BY TWO OR MORE SELL-SIDE ANALYSTS
VALUATION OVERVIEW	PRICE MULTIPLES

### Universe filtering

Analysts draw upon their experience to identify companies that may qualify for further research. Research efforts include analysing annual reports and other disclosures, reviewing industry journals, news events and items, participating in industry and investment conferences, and meetings with management and other industry participants. Furthermore, inputs analysts may use to uncover new ideas also include investigations into competitors, suppliers and customers of companies under coverage.

Whether a company qualifies for further research is based on an analyst's fundamental judgment. Quantitative metrics may be used as a tool to evaluate ideas, but companies are not automatically selected or excluded based on these metrics. While an important consideration, the analysis of stock price does not occur until the latter stages of the research process.

### Research approach

Analysts conduct in-depth research of qualified companies to gain an understanding of their business models, risk and return profile, quality of management and whether they meet the Manager's assessment of forward-looking positive changes, accelerations and inflections in a business' key operations. Each stock must also be covered by a minimum of two sell-side research analysts for consideration in the portfolio. All of the data is captured in the Manager's proprietary database – Axware.

Analysts conduct a holistic assessment of all key fundamental drivers. The Manager uses a proprietary ratings matrix and scorecard to formally assess enterprise risk and return for each company. The framework ensures consistency in the research output. Every assessed company is assigned a 'Risk Rating' (a letter, A-E) and 'Return Rating' (a number, 1-3) that determines position sizing, in addition to driving buy/sell decisions.

### Risk Rating

The letter rating is a representation of the company's risk across the following criteria:

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- Enterprise characteristics (35%): market cap, competitive position and liquidity.
- Financial strength (30%): net debt/equity, profit consistency and free cash flow.
- ESG & structural factors (25%): ESG, management strength, country and market risk.
- Statistical factors (10%): beta, share price volatility and shareholder profile.

A company with an A or B rating would represent a 'global champion', C's are strong niche businesses, and anything below this is considered either smaller companies in a developed market or companies in an emerging market.

## Return Rating

The number rating is a representation of the upside return potential for each company based on the following criteria:

- Positive change (60%): forward-looking focus on fundamental drivers, including full incorporation of ESG factors.
- Sustainable growth (20%): performance tailwinds, compounding earnings growth, ESG alignment. This component is forward-looking between 12-36 months.
- Valuation (20%): increases with upside potential. The team use valuation to calibrate portfolio positioning and risk control.

The research is compiled in a standardised scorecard that includes a research summary, valuation analysis and the associated stock matrix ranking.

## Valuation

The valuation analysis begins with the construction of a financial model using a company's historical income statements, balance sheets and cash flow statements. This analysis is then compared to consensus estimates from at least two sell-side brokers to identify a potential gap between the Manager's research and consensus expectations.

The Manager primarily uses price multiples i.e. price to earnings, to compare a company's current valuation against historical norms, sector peers and consensus estimates. The Manager's valuation assessment serves to identify upside potential and provide risk control benefits.

## Portfolio Construction

### Overview

FUND BENCHMARK	MSCI ALL COUNTRY WORLD TOTAL RETURN INDEX AUD
EMERGING MARKETS PERMITTED	YES
INTERNAL RETURN OBJECTIVE	TO OUTPERFORM THE BENCHMARK, NET OF FEES, OVER ROLLING FIVE-YEAR PERIODS
INTERNAL RISK OBJECTIVE	NO STATED RISK OBJECTIVE
PORTFOLIO MANAGEMENT APPROACH	BENCHMARK UNAWARE
INVESTMENT STYLE	GROWTH
PORTFOLIO DECISION MAKING	PORTFOLIO MANAGER
STOCK SELECTION	BOTTOM-UP
TOP-DOWN INFLUENCE	MINOR CONSIDERATION
MARKET CAPITALISATION BIAS	LARGE
TYPICAL NUMBER OF HOLDINGS	45-75
EXPECTED PORTFOLIO TURNOVER	40% P.A.
OBSERVED ACTIVE SHARE	83.6% (FEB. 2023)
PORTFOLIO EXPOSURE IN TOP 10 HOLDINGS	34.4% (FEB. 2023)

### Decision making

The lead portfolio manager, Bradley Amoils, has ultimate decision-making authority for the Fund. After the negative screen for ESG is applied, only stocks that have undergone the in-depth research process and been rated within the Manager's proprietary framework may be considered for inclusion in the portfolio.

Position sizes are determined based on the outcome of the risk and return rating within the matrix.

Considerations in managing each stock's position size include:

- Assessment of a company's risk and return characteristics based on the teams research;
- The stock's valuation at the time of assessment;
- Liquidity of the stock; and
- The stock's potential impact on the portfolio's overall risk profile i.e. volatility.

### Buy/sell drivers

The lead portfolio manager will discuss with analysts the company's rating within the rating framework prior to initiating or exiting a stock position.

Axiom's sell discipline is based on the same fundamental analysis undertaken on buy candidates.

The following criteria are considered:

- The dynamic growth opportunities of a particular holding are falling short of expectations;
- The price of a stock in the portfolio appreciates to a point where the business results are effectively priced in, or the majority of the upside potential has been achieved; and
- better opportunities exist based on overall portfolio risk and return.

When a position, which is still preferred, appreciates beyond the stock limits, the Manager will reduce the position size for diversification purposes.

ANALYST: MITCHELL RYAN | APPROVED BY: ELLIOT LUCAS

# Pengana Axiom International Ethical Fund

ISSUE DATE 27-04-2023

## Risk Management

### Risk limits

SEPARATE RISK MONITORING	YES
STOCK LIMIT	MAX. 6% OR 1.5X THE BENCHMARK
SECTOR / INDUSTRY LIMITS	MAX. 40% (IT: MAX. 45%)
COUNTRY / REGION LIMITS	MAX. 30% (US: 0.5-1.5X THE BENCHMARK)
EMERGING MARKETS LIMIT	MAX. 25%
CASH LIMIT	MAX.5%

The Fund has varied maximum country and region limits as noted in the above table.

The Fund is expected to be fully invested with cash holding typically between 1-5%.

### Risk monitoring

Portfolio exposures and expected volatility, both absolute and relative to the Benchmark, are monitored using various off-the-shelf risk management tools.

At the portfolio construction level, risk is managed by adhering to portfolio guidelines for all investment strategies in absolute terms.

Pengana also monitors risk limits separately from the investment manager. Risk reports are generated for the Fund, which is reviewed daily by the CIO or performance and risk manager, and monthly by the Risk Committee comprising of the CIO and Head of Operations.

## Risks

**An investment in the Fund carries a number of standard investment risks associated with domestic and international investment markets. These include economic, political, legal, tax and regulatory risks. These and other risks are outlined in the PDS and should be read in full and understood by investors. Lonsec considers major risks to be:**

### Market risk

Investments in equity markets are subject to numerous factors, which may have an impact on the performance of an investment, both positive and negative.

Unexpected changes in economic, technological, structural, regulatory or political conditions can have an impact on the returns of all investments within a particular market.

### Currency risk

The Fund predominantly invests in assets that are denominated in non-AUD currencies. A rise in the relative value of the AUD with respect to the currencies in which the assets are denominated will negatively impact the market value of the assets, and vice versa, from an Australian investor's perspective. The Fund's currency exposure is unhedged.

ANALYST: MITCHELL RYAN | APPROVED BY: ELLIOT LUCAS



# Pengana Axiom International Ethical Fund

## Quantitative Performance Analysis - annualised after-fee % returns (at 31-1-2023)

### Performance metrics

	1 YR		3 YR		5 YR		10 YR	
	FUND	PEER MEDIAN	FUND	PEER MEDIAN	FUND	PEER MEDIAN	FUND	PEER MEDIAN
PERFORMANCE (% PA)	-16.78	-11.56	2.21	4.39	5.77	9.67	8.46	13.92
STANDARD DEVIATION (% PA)	19.06	16.98	16.59	15.17	13.67	13.52	12.30	12.33
EXCESS RETURN (% PA)	-8.78	-3.66	-2.80	-1.06	-2.73	0.29	-4.11	0.77
OUTPERFORMANCE RATIO (% PA)	25.00	41.67	52.78	50.00	50.00	51.67	47.50	51.25
WORST DRAWDOWN (%)	-21.69	-19.09	-31.23	-23.98	-31.23	-22.95	-31.23	-21.92
TIME TO RECOVERY (MTHS)	NR	NR	NR	NR	NR	NR	NR	NR
SHARPE RATIO	-0.96	-0.78	0.10	0.26	0.35	0.60	0.55	0.97
INFORMATION RATIO	-1.02	-0.67	-0.29	-0.15	-0.34	0.05	-0.45	0.14
TRACKING ERROR (% PA)	8.57	6.40	9.53	7.39	8.00	6.23	9.08	4.45

PRODUCT: PENGANA AXIOM INTERNATIONAL ETHICAL FUND

LONSEC PEER GROUP: GLOBAL EQUITIES - GLOBAL LARGE CAP - FUNDAMENTAL GROWTH

PRODUCT BENCHMARK: MSCI AC WORLD NR INDEX AUD

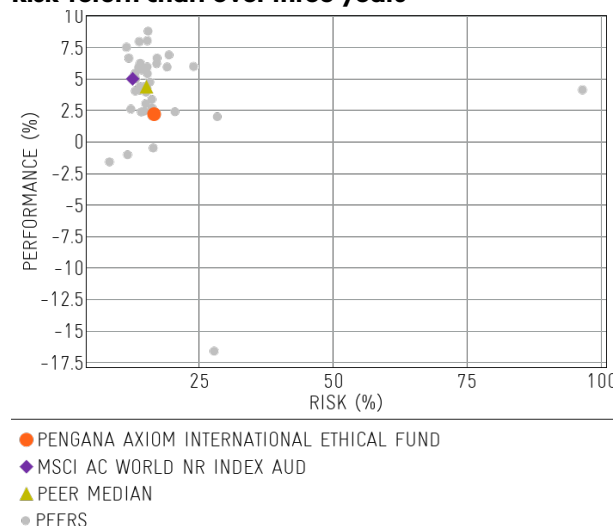
CASH BENCHMARK: BLOOMBERG AUSBOND BANK BILL INDEX AUD

TIME TO RECOVERY: NR - NOT RECOVERED, DASH - NO DRAWDOWN DURING PERIOD

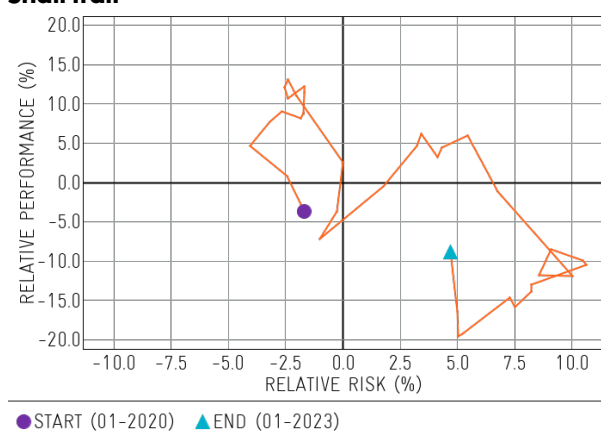
### Growth of \$10,000 over 10 years



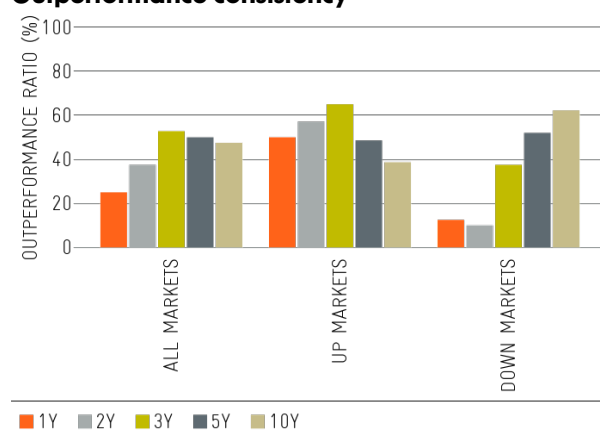
### Risk-return chart over three years



### Snail trail



### Outperformance consistency



# Pengana Axiom International Ethical Fund

## Glossary

**Total return** 'Top line' actual return, after fees  
**Excess return** Return in excess of the benchmark return  
**Standard deviation** Volatility of monthly Absolute Returns  
**Tracking error** Volatility of monthly Excess Returns against the benchmark (the Standard Deviation of monthly Excess Returns)  
**Sharpe ratio** Absolute reward for absolute risk taken (outperformance of the risk free return (Bank Bills) / Standard Deviation)  
**Information ratio** Relative reward for relative risk taken (Excess Returns / Tracking Error)  
**Worst drawdown** The worst cumulative loss ('peak to trough') experienced over the period assessed  
**Time to recovery** The number of months taken to recover the Worst Drawdown  
**Snail Trail** A trailing 12-month relative performance and relative risk measurement over the benchmark. The trail is generated using a 12-month rolling window over the specified period

## About Lonsec

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