

## Pengana Harding Loevner International Fund Class E

Rating issued on 29 Nov 2023 | APIR: PCL1284AU

### Investment objective

To outperform the MSCI All Country World Total Return Index \$A (after fees) over the medium to long term. Internally, the Fund aims to outperform the benchmark by 3% p.a. (before fees) over the long term.

Manager	Harding Loevner
Distributor	Pengana Capital Group
Sector	International Shares \ Global (Unhedged)
Investment Style	Growth
RI Classification	Integrated
Absolute Risk	High
Relative Risk	Active - Benchmark Unaware
Investment Timeframe	7+ Years
Benchmark	MSCI World Ex Aust \$A
Min Investment Amount	\$10,000
Redemption Frequency	Daily
Income Distribution	Annually
Fund Size (31 Oct 2023)	\$40.93M
Management Cost	0.65% p.a. Incl. GST
Performance Fee	15% of outperformance of the MSCI All Country World Index (after management fees), subject to the recoupment of all prior underperformance
Buy / Sell Spread	0.20 % / 0.20 %
Inception Date	01 Aug 2019

### Fund facts

- Expected to hold 35 to 75 positions
- Exposure to mid and small-cap companies
- Portfolio turnover is expected to average between 20% p.a. and 40% p.a. over a market cycle.

### Viewpoint

The Fund, managed by Harding Loevner (HL) and distributed by Pengana Capital Limited (Pengana), provides investors with a benchmark-unaware, quality and growth biased global equities exposure. Zenith's conviction in the Fund is driven by HL's experienced and well-resourced team. Further, we note that HL's investment process has been successfully applied since 1989, producing attractive investment outcomes.

Established in 1989, HL is a global equities investment management firm headquartered in Bridgewater, New Jersey. As at 31 October 2023, HL managed approximately \$US 46.5 billion firmwide. Pengana appointed HL as the investment manager of the Fund in May 2021. 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.

The investment team of 33 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.

Peter Baughan and Jingyi Li are the co-portfolio managers of the Fund. Each portfolio manager is responsible for half the portfolio, which is managed independently of each other. Zenith believes Baughan and Li are experienced investors who possess the requisite skills to successfully manage the Fund.

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 analysts meeting with management and company stakeholders. HL employs a standardised, multi-staged 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 Fund was managed by Pengana's internal investment team. As such, the Fund'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 Market Weight	Max: 25%
Cash	Max: 10% (Typically 3%)

### Investment objective and philosophy

The Fund's investment objective is to outperform the MSCI All Country World Total Return Index \$A (after fees) over the long term. Internally, the Fund aims to outperform the benchmark by 3% p.a. (before fees) over the long term.

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.

*HL was appointed the investment manager of the Fund in May 2021. Prior to this date, the Fund was managed by Pengana's internal investment team.*

### 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 Fund to

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

The Fund's currency exposure remains unhedged, which may suit investors seeking an international equity investment with exposure to fluctuations in the Australian dollar. For investors concerned about the short-term risks associated with fully unhedged or hedged currency positions, Zenith suggests blending hedged and unhedged global equity exposures to reduce short-term volatility.

The Fund'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. Given this expected level of turnover, the majority of the Fund's returns are expected to be delivered via capital appreciation in the unit price, rather than through the realisation of capital gains in income distributions. In addition, realised capital gains are highly likely to be eligible for the capital gains tax discount. As such, holding all else equal, the Fund may be more appealing to investors who are high marginal tax rate payers as it will result in superior after-tax return outcomes.

### Fund responsible investment attributes

Key Information	Description
Zenith RI classification*	Integrated
Has Responsible Investment Policy	Yes
PRI Status	
PRI Signatory	Yes

\*Zenith RI Classification scale:

- Traditional
- Aware
- Integrated
- Thematic
- Impact



## Absolute performance

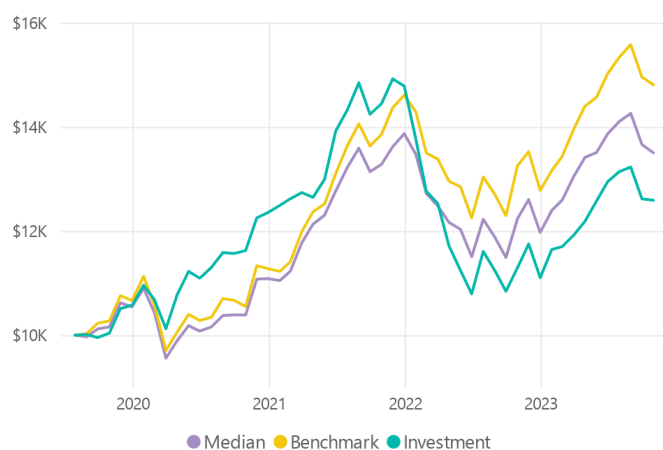
### Performance as at 31 Oct 2023

#### Monthly performance history (% , net of fees)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	BM YTD*
2023	4.87%	0.49%	1.89%	2.21%	3.20%	2.96%	1.48%	0.68%	-4.61%	-0.22%			13.40%	15.88%
2022	-6.90%	-7.25%	-1.87%	-6.48%	-4.03%	-4.00%	7.54%	-3.14%	-3.56%	4.18%	4.04%	-5.52%	-24.90%	-12.52%
2021	1.08%	1.02%	0.95%	-0.72%	2.73%	7.15%	2.90%	3.64%	-4.06%	1.44%	3.29%	-0.93%	19.63%	29.58%
2020	3.63%	-2.51%	-5.24%	6.40%	4.21%	-1.16%	1.86%	2.52%	-0.15%	0.49%	5.42%	0.86%	16.88%	5.73%
2019								0.11%	-0.59%	0.84%	4.70%	0.62%	5.73%	6.64%

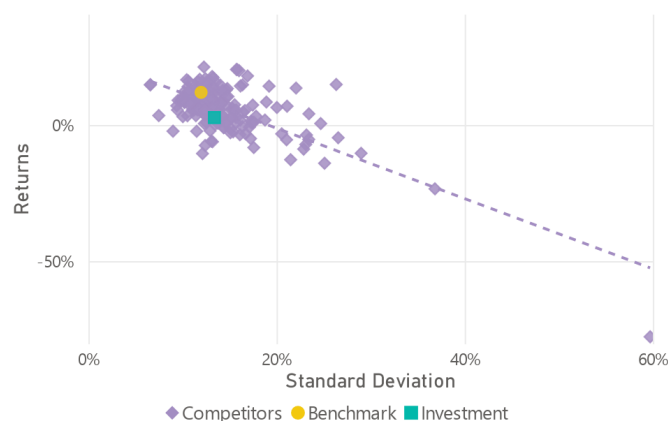
\*MSCI World ex Aust \$A

#### Growth of \$10,000

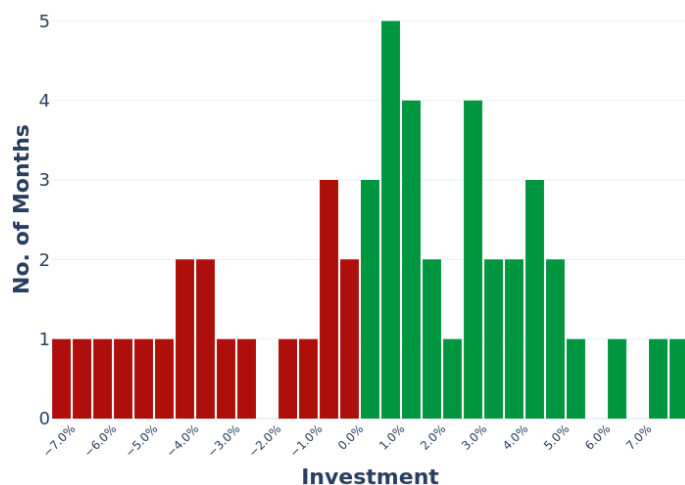


#### Risk / return

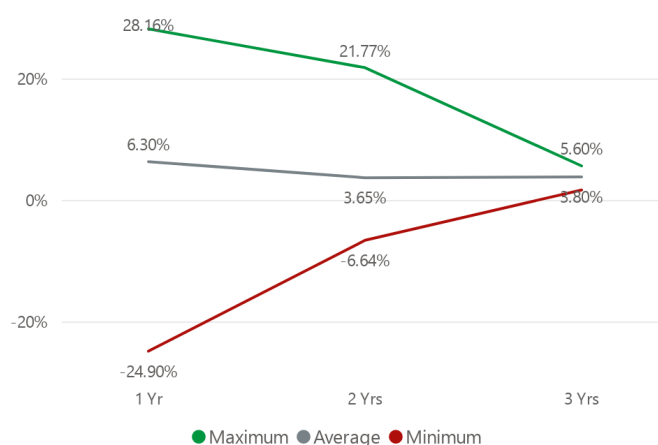
3 Yrs (% p.a.)



#### Monthly histogram



#### Minimum and maximum returns (% p.a.)





## Absolute performance analysis

Instrument	6 Mths	1 Yr	2 Yrs	3 Yrs	Inception
Investment	3.34%	11.47%	-6.64%	2.70%	5.57%
Benchmark	2.87%	11.72%	3.38%	11.98%	9.68%
Median	0.74%	10.48%	0.89%	9.19%	7.35%
Cash	2.02%	3.66%	2.20%	1.47%	1.22%

## Ranking within sector (p.a.)

Ranking within Sector	1 Yr	3 Yrs	Inception
Fund Ranking	103 / 216	151 / 173	122 / 160
Quartile	2nd	4th	4th

## Absolute risk

Instrument	1 Yr	2 Yrs	3 Yrs	Inception
<b>Standard Deviation (% p.a.)</b>				
Investment	10.55%	14.20%	13.39%	12.54%
Benchmark	9.81%	12.42%	11.98%	11.99%
Median	9.55%	11.81%	11.34%	11.25%
<b>Downside Deviation (% p.a.)</b>				
Investment	7.20%	11.25%	9.49%	8.48%
Benchmark	6.87%	8.14%	6.88%	7.49%
Median	6.60%	8.11%	6.90%	7.41%

## Absolute risk/return ratios

Instrument	1 Yr	2 Yrs	3 Yrs	Inception
<b>Sharpe Ratio (p.a.)</b>				
Investment	0.74	-0.62	0.09	0.35
Benchmark	0.82	0.10	0.88	0.71
Median	0.71	-0.11	0.68	0.55
<b>Sortino Ratio (p.a.)</b>				
Investment	1.08	-0.79	0.13	0.51
Benchmark	1.17	0.15	1.53	1.13
Median	1.03	-0.16	1.12	0.83

For consistency purposes, Zenith benchmarks all products in the International Shares - Global (Unhedged) sector against the MSCI World ex-Australia Index \$A.

All commentary below is at 31 October 2023.

The Fund's investment objective is to outperform the MSCI All Country World Total Return Index \$A (after fees) over the medium to long term. Internally, the Fund aims to outperform the benchmark by 3% p.a. (before fees) over the long term.

Given the Fund's recent change in investment manager, there is currently insufficient performance history to conduct any meaningful analysis.



## Relative performance

### Excess returns

Statistic	6 Mths	1 Yr	2 Yrs	3 Yrs	Inception
Excess Return	0.47%	-0.26%	-10.03%	-9.28%	-4.11%
Monthly Excess (All Mkts)	33.33%	33.33%	25.00%	30.56%	39.22%
Monthly Excess (Up Mkts)	25.00%	33.33%	30.77%	31.82%	35.48%
Monthly Excess (Down Mkts)	50.00%	33.33%	18.18%	28.57%	45.00%

### Capture ratios (% p.a.)

Statistic	6 Mths	1 Yr	2 Yrs	3 Yrs	Inception
Downside Capture	97.37%	99.09%	142.16%	133.16%	106.97%
Upside Capture	104.06%	98.47%	85.91%	81.69%	86.80%

### Tracking error (% p.a.)

Instrument	1 Yr	2 Yrs	3 Yrs	Inception
Investment	4.63%	6.11%	6.45%	6.44%
Median	1.64%	1.86%	1.73%	1.84%

### Information ratio

Instrument	1 Yr	2 Yrs	3 Yrs	Inception
Investment	-0.06	-1.64	-1.44	-0.64
Median	-0.76	-1.34	-1.61	-1.27

### Beta statistics

Statistic	1 Yr	2 Yrs	3 Yrs	Inception
Beta	0.97	1.03	0.98	0.90
R-Squared	0.81	0.82	0.77	0.74
Correlation	0.90	0.90	0.88	0.86

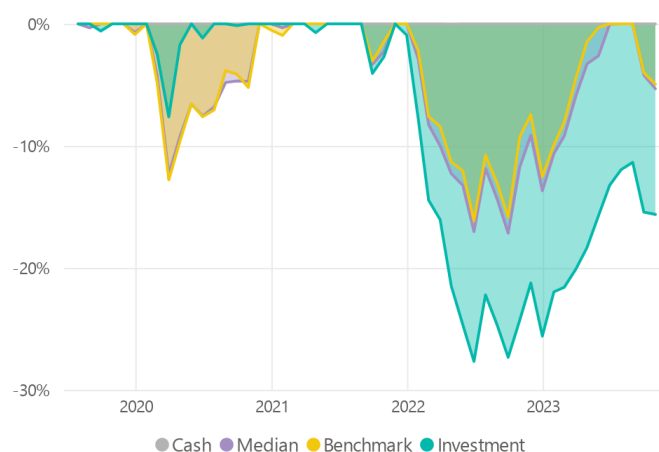
All commentary below is at 31 October 2023.

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.

Given the Fund's recent change in investment manager, there is currently insufficient performance history to conduct any meaningful analysis.

### 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 2023.

Given the Fund's recent change in investment manager, there is currently insufficient performance history to conduct any meaningful analysis.

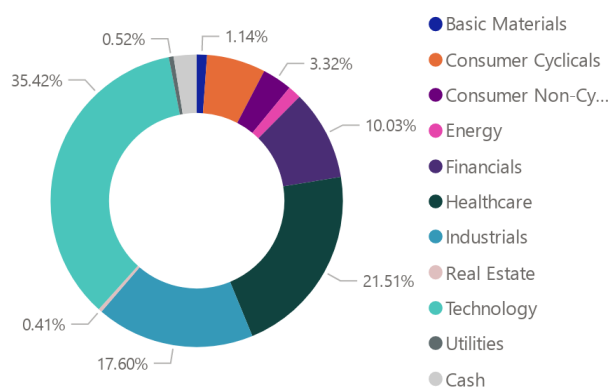


## Product Exposures

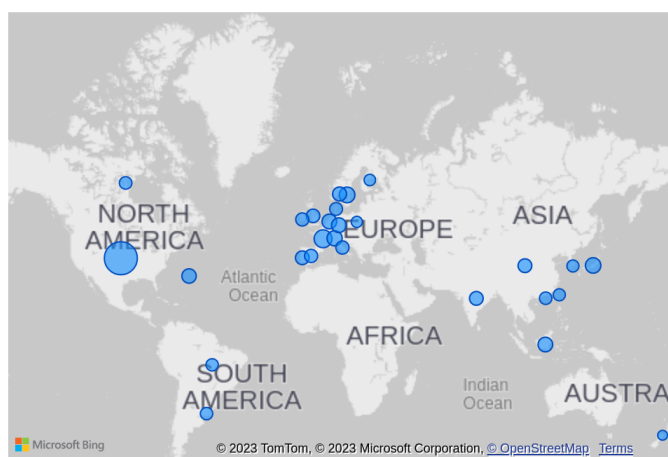
### Holdings as at 30 Sep 2023

Stock	Weight	Country	Sector
SCHNEIDER ELECTRIC SE	4.17%	France	Industrials
VERTEX PHARMS.INCO.	3.83%	USA	Healthcare
ALPHABET INCO.	3.58%	USA	Technology
AMAZON.COM INCO.	3.16%	USA	Consumer Cyclical
META PLATFORMS INCO.	3.09%	USA	Technology
DEERE & CO.	2.87%	USA	Industrials
BANK CENTRAL ASIA TBK.	2.84%	Indonesia	Financials
MICROSOFT CORP.	2.67%	USA	Technology
DANAHER CORP.	2.29%	USA	Healthcare
ROCKWELL ATMTN.INCO.	2.22%	USA	Industrials

### Equity sector exposure



### Equity country exposure





## Fund commentary

### Fund risks

Zenith has identified the following key risks of the Fund. 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 portfolio manager would be considered a material loss, warranting an immediate reassessment of the Company's rating. Notwithstanding this, 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 2023, FUM in the strategy totalled approximately \$US 11.7 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 Fund'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 Fund 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.

### Security/asset selection

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

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 focused on assessing company quality. Analysts undertake a detailed research process, typically two to three months in duration, which involves analysts meeting with management and company stakeholders. Analysts are required to evaluate 10 key criteria:

- 1 Threat of new entrants
- 2 Threat of substitutions
- 3 Bargaining power of buyers
- 4 Bargaining power of suppliers
- 5 Intensity of industry rivalry
- 6 Foresight and change management
- 7 Environmental, social and governance (ESG) risk factors
- 8 Strength of free cash flow
- 9 Balance sheet strength
- 10 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 years 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 (five to seven years). 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 2020, that guides its investment decisions.

Whilst the Fund does not have any specific ESG exclusions, HL takes an active approach to 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.





Zenith has assigned the Company a responsible investment classification of Integrated.

### Portfolio construction

The Fund comprises two independent portfolios managed by Baughan and Li. The sub-portfolios are approximately equally weighted, with rebalancing occurring when there is a divergence that is 6% or greater.

Selecting from the list of rated stocks, Baughan and Li are responsible for the construction of their own sub-portfolio. Position sizing in each sub-portfolio is predominantly agnostic to benchmark weights (the weights of the largest companies in the benchmark may be considered) and driven by the portfolio managers' view of:

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

However, the portfolio managers generally aim to hold approximately 50 positions at relatively equal weights.

When the sub-portfolios are combined, the Fund 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 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. This is consistent with HL's long-term investment approach.

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 Fund.

### Investment fees

	Fund	Sector Average
Total Fees and Costs (RG 97)	0.86 % p.a.	0.94 % p.a.
Management Fees and Costs	0.65 % p.a.	0.82 % p.a.
Transaction Costs	0.04 % p.a.	0.04 % p.a.
Performance fees as at 30 Jun 2023	0.17 %	0.11 %
Performance fees description	15% of outperformance of the MSCI All Country World Index (after management fees), subject to the recoupment of all prior underperformance	
Management Cost	0.65 % p.a.	0.86 % p.a.
Buy / Sell spread	0.20 % / 0.20 %	0.15 % / 0.15 %

*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).*

*The sector average management cost is based on the average management cost of all flagship International Equities funds surveyed by Zenith.*

The performance fee is accrued daily and paid semi-annually. Zenith believes there is scope for the payment period to be extended, with an annual frequency being the preferred structure. We are of the view that a longer payment frequency is better aligned with the Fund's longer-term investment objectives.

For any fund 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 fair, relative to peers, given its stated objectives. However, there is insufficient performance data at this stage to conduct meaningful analysis on whether the fees paid are justified.





Pengana also offers an alternative vehicle (APIR: PCL0026AU) that is identical in all respects except that it charges a management cost of 0.95% p.a. with no associated performance fee.

*The fees mentioned above are reflective of the flagship version only. Fees may differ when the product is accessed through an alternate investment vehicle such as a platform.*

## 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 2023, HL managed approximately \$US 46.5 billion firmwide.

The Fund is offered in Australia by Pengana Capital Limited (Pengana). Pengana is 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 entirely responsible for the management and performance 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 totalling \$A 2.87 billion in FUM as at 31 October 2023.

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 2023, HL managed approximately \$US 46.5 billion in global and ex-US equities strategies. Of which, approximately \$A 40.93 million was invested in the Fund.

### Investment personnel

Name	Title	Industry Experience (yrs)	Tenure (yrs)	Location
Peter Baughan	CIO/ Portfolio Manager	40	26	Bridgewater, USA
Jingyi Li	Portfolio Manager	25	13	Bridgewater, USA

Primarily based in Bridgewater, New Jersey, the investment team of 33 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.

The investment team comprises 13 dedicated analysts and 20 portfolio managers, who also undertake stock coverage. 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.

Peter Baughan and Jingyi Li are portfolio managers of the Fund. Each portfolio manager is responsible for half the portfolio, which is managed independently of each other. HL generally has multiple portfolio managers responsible for a strategy to ensure stability in the event of staff turnover.

Baughan has over 40 years of investment experience and has been with the firm since 1997. In 2003, Baughan was appointed as a co-portfolio manager of the underlying strategy. Baughan has analyst coverage of the consumer discretionary sector.

Joining HL in 2010, Li has over 25 years of investment experience. 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 Baughan and Li are experienced investors who possess the requisite skills to successfully manage the Fund.

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

The investment team has historically maintained a high level of stability, experiencing five departures over the past three years, two of which were retirements.

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. 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 1,453 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 2023, the United States, Japan and United Kingdom represented a significant portion of the MSCI World ex-Australia Index, with each country accounting for 71%, 6% and 4% respectively. In addition, the top 10 stocks represented approximately 21% 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 appreciates. 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.

## Administration and operations

Responsible Entity	Pengana Capital Limited
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## Zenith rating

### Report certification

Date of issue: 29 Nov 2023

Role	Analyst	Title
Analyst	Jack Hannah	Associate Investment Analyst
Sector Lead	Quan Nguyen	Head of Equities
Authoriser	Bronwen Moncrieff	Head of Research

### Association & relationship

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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
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
25 Nov 2020	Recommended
27 Nov 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.



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

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