



Product Review

Pengana International Equities Limited

ISSUE DATE 03-09-2021

About this Review

ASSET CLASS REVIEWED	GLOBAL EQUITIES
SECTOR REVIEWED	GLOBAL LARGE CAP
SUB SECTOR REVIEWED	LIC
TOTAL COMPANIES RATED	7

About this Company

LIC REVIEWED	PENGANA INTERNATIONAL EQUITIES LIMITED
ASX CODE	PIA
ASX LISTING DATE	18 MARCH 2004
COMPANY OBJECTIVE	TO GENERATE CONSISTENT LONG-TERM RETURNS WHILST REDUCING VOLATILITY AND THE RISK OF LOSING CAPITAL, FROM INVESTING IN AN ETHICALLY SCREENED AND ACTIVELY MANAGED PORTFOLIO OF GLOBAL BUSINESSES
MANAGEMENT COSTS	1.23% P.A.
PERFORMANCE FEE	15.38% (OF ANY RETURN GREATER THAN THE BENCHMARK)

Market data

MARKET CAPITALISATION	\$374M
SHARES ON ISSUE	254M
SHARE PRICE (2-9-2021)	\$1.47
52 WEEK HIGH/LOW SHARE PRICE	\$1.47 / \$1.13
NTA (27-8-2021)	\$1.56
52 WEEK HIGH/LOW NTA	\$1.56 / \$1.30
SHARE PRICE PREM/(DISC) TO NTA	-5.61%

Board of Directors

NO. OF DIRECTORS	4
CHAIRPERSON	FRANCIS GOOCH

About the Investment Manager

INVESTMENT MANAGER	HARDING LOEVNER LP
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Investment Team

PORTFOLIO MANAGER	PETER BAUGHAN, JINGYI LI
STRUCTURE / LOCATION	GLOBAL SECTOR AND REGIONAL / BRIDGEWATER (US), LONDON (UK)

Investment process

STYLE	GARP (QUALITY/GROWTH)
BENCHMARK	MSCI WORLD TR INDEX (NET) AUD
TYPICAL NUMBER OF STOCKS	35 - 75
STOCK LIMITS	MAXIMUM 5%
SECTOR / INDUSTRY LIMITS	MAXIMUM 25% (GICS LEVEL 1) / 15% (GICS LEVEL 3)
COUNTRY / REGION LIMITS	VARIES BY COUNTRY / REGION
CURRENCY EXPOSURE	UNHEDGED

Company rating history

SEPTEMBER 2021	RECOMMENDED
MARCH 2021	REDEEM

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.

Scope of this rating

- Lonsec has used its Managed Funds research process in forming an opinion on this Listed Investment Company's (LIC or Company) ability to meet its stated investment objectives. The extent of any 'point-in-time' divergence between PIA's share price and its underlying Net Tangible Asset Value (NTA) per share is not part of the ratings consideration.
- Lonsec does consider whether structural or management issues could potentially lead to a LIC trading at a significant discount to its NTA over an extended period of time without any recourse for shareholders. This aspect forms part of the wider qualitative and quantitative assessment that Lonsec undertakes when assessing the relative investment merits of a LIC.

Strengths

- Senior members of the investment team are considered to be high quality and well-experienced professionals.
- The research process is seen as robust and repeatable, and well-suited to the quality-growth focused investment philosophy.
- The Manager has a long track record of successfully implementing the investment process through multiple market cycles.

Weaknesses

- The Company's management and performance fee structure is significantly higher than the unlisted trust that follows the same investment strategy, with the only observable difference being the Company's additional ethical screening.
- The track record of Co-Lead Portfolio Managers Peter Baughan and Jingyi Li is considered to be still in its infancy, albeit performance outcomes to date have been positive.
- The Manager's milder quality-growth and diversified investment approach may curtail the Company's ability to achieve stronger performance outcomes relative to more growth-orientated peers.
- The sub-portfolio investment approach introduces a degree of complexity and the potential to dilute the best ideas of each Co-Lead Portfolio Manager.

ANALYST: HONG HON | APPROVED BY: RUI FERNANDES

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Company 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		●	

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 Company?

- Pengana International Equities Ltd ('PIA' or the 'Company') is a LIC that invests in an actively managed global equities portfolio of 35-75 predominately large cap stocks, with a focus on high quality, growing companies identified through fundamental research. The Company's investment objective is to generate consistent long-term returns, whilst reducing volatility and the risk of losing capital from investing in an ethically screened and actively managed portfolio of global businesses.

The structure

- The Company first listed on the ASX on 19 March 2004 (ASX:PIA). PIA originally listed as a part of the Hunter Hall group. However, the management of the company underwent a significant restructure through the merger of Hunter Hall International Limited with Pengana Capital Group ('Pengana' or 'PCG', ASX:PCG) in 2017.
- Shortly following the merger, PCG was appointed as investment manager for the Company. The merger saw a restructure of the international equities capability and renewed investment team put in place for the portfolio. However, following the departure of Pengana's in-house portfolio managers in March 2021 and after a global manager search, Harding Loevner LP ('Harding Loevner' or the 'Manager') was appointed as the investment manager for the Company in May 2021.

- Although PIA has a long-term performance track record, the appointment of Harding Loevner as investment manager for the Company in May 2021 means the Company's historical performance is not reflective of the current Manager.
- As at 31 July 2021, the Company had 255m shares on issue trading at \$1.435, which represented a 5.2% discount to the pre-tax NTA per share of \$1.5096. The Company declared a quarterly fully franked dividend of 1.35 cents per share in July 2021 following a fully franked dividend of 1.25 cents per share in the previous quarter. PIA has announced that the increase in the annualised target dividend of 5.4 cents per share reflects the assessment that the Manager's investment strategy can support the Company's ongoing objective to deliver both capital growth and consistent fully franked dividends to shareholders.

The investment strategy

- Harding Loevner believes that investing in high quality, growing businesses at reasonable prices leads to superior risk-adjusted returns over the long term. This quality-growth philosophy has been the foundation of all of Harding Loevner's investment strategies since the firm was founded in 1989.
- The Company invests per a model portfolio that is created by merging two separate sub-portfolios constructed from the bottom-up by two Co-Lead Portfolio Managers. Stocks are selected from the pool of analyst-rated stocks based on their potential risk-adjusted returns relative to the broader research universe and ability to enhance the sub-portfolio's overall risk/return profile.
- The Manager seeks to construct a well-diversified and relatively concentrated portfolio that reflects the firm's most compelling investment ideas. Initial positions are typically sized at 0.5-1% based on the judgment of each portfolio manager (within their respective sleeves), with a maximum single holding limit of 5%. The model portfolio is also subject to strict portfolio guidelines, which prescribes minimum number of exposures and maximum portfolio weightings to sectors/industries and countries/regions.
- The Company is charged a management fee of 1.23% p.a. of NAV by the Manager. The Company also incurs direct expenses. Additionally, the Manager will be entitled to a performance fee of 15.38% of the amount by which the Company's portfolio return exceeds the total return of the MSCI World Net Total Return Index (AUD). While the performance fee is uncapped, it is subject to a high watermark and has no reset clause. Lonsec notes that the performance fees are linked to the portfolio rather than the share price which could lead to investors incurring a performance fee when their share returns have been diminished due to a widening of the discount between the share price and NAV per share.
- Lonsec also highlights that the management and performance fee structure is significantly higher than that of the unlisted trust that follows the same investment strategy. The only observable difference between the Company and unlisted trust is the additional ethical screening.

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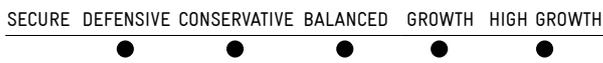
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Using this Company

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

- The Company 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 believes the Manager’s quality-growth philosophy most closely resembles a GARP investment style and is expected to deliver returns, which should be more stable than a typical market benchmark over the cycle.
- The Company may be relatively concentrated with the expectation of holdings in the broad range of 35-75 stocks and may be suitable as a core holding in a core-satellite portfolio or blended with complementary styled products (e.g. value). Lonsec recommends that equity investments, given their volatility, are best suited for investors with an investment time horizon of at least five years.
- A GARP investment style normally aims to invest in stocks with solid long term growth prospects without paying too high of a valuation. In this sense, a GARP investment style can be considered somewhat of a blend between growth and value.
- The Company is structured to avoid investment in a broad number of excluded industries applying an earnings materiality test which may appeal to those investors motivated by ethical considerations.
- It is recommended that advisers pay attention to the level of ethical screening incorporated in the investment process as this may be a material consideration for ethically motivated investors. While the portfolio includes a broad range of exclusions, the exclusion of all mining stocks as well as fossil fuel exploration, production, refining, storage and transportation companies from the investable universe is expected to result in significant sectoral deviations from the benchmark.

Suggested Lonsec risk profile suitability



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

- This is Lonsec’s initial review of the Company since the appointment of Harding Loevner as investment manager in May 2021. Lonsec previously rated the Company and issued a ‘Redeem’ rating following the departure of Pengana’s in-house portfolio managers in March 2021.

Lonsec Opinion of this Company

Board of directors

- PIA has its own separate Board of Directors (the ‘Board’) comprising four members, two of which have been designated as Non-Executive by the Company. The non-executive directors are Francis Gooch and Sandi Orleow. Lonsec notes Gooch is also the Chair of the Company and there is no clear majority of Non-Executive Directors on the Board. Lonsec believes that having designated a majority of its Board as being Non-Executive Directors as per the ASX listing rules is considered to represent best practice.
- Lonsec considers the Board to be experienced and comprised of a mix of individuals with the requisite experience and skills in both financial services and funds management, which should allow the Company to meet its investment objectives. Gooch has over 30 years of experience in the finance and investments industry, having previously served as Chair of the Australian Listed Investment Companies Association, and CEO and Managing Director of Milton Corporation.
- Lonsec notes Sandi Orleow replaced Julian Constable as a Director on the Board at the October 2019 AGM. Lonsec sees the appointment of Orleow as a positive development for the composition of the Board in terms of diversity, which may lead to a broader perspective in decision making. More broadly, Lonsec supports Boards ensuring a regular refresh of their members.
- Being listed on the ASX, the Company also needs to comply with the stringent listing rules of the ASX. The Company has an established Audit, Risk and Compliance Committee operating under a Charter approved by the Board.

People and resources - Investment manager

- Peter Baughan and Jingyi Li are the Co-Lead Portfolio Managers of the Global Equity strategy, which is the underlying strategy of the Company. Baughan has been a Co-Lead Portfolio Manager for the strategy since 2003, while Li has only recently assumed the role in January 2021 from current firm CIO Ferrill Roll. Thus, Baughan and Li’s track record as Co-Lead Portfolio Managers is considered to be still in its infancy. That said, prior to taking over as Co-Lead Portfolio Manager from Roll, Li had been managing a paper portfolio of the Global Equity strategy since 2019 alongside Baughan and Roll. Lonsec has reviewed the performance track record for Roll’s sub-portfolio and Li’s paper portfolio, and observed similar performance outcomes, somewhat easing concerns over the recent transition of responsibilities.
- Baughan joined Harding Loevner in 1997 and has over 38 years of investment experience. Prior to his appointment as Co-Lead Portfolio Manager, Baughan held research responsibilities for the Consumer sector, which he has retained. Baughan is also a Portfolio Manager for the World (ex-Emerging Market) strategy. Lonsec has met with Baughan during the review and believes he is a high quality investor with a sound knowledge of the investment process. Overall, Lonsec was impressed by Baughan’s portfolio management skills and positively views his

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active engagement with relevant analysts. Lonsec will continue to test Baughan's portfolio management skill in future reviews to build further conviction.

- Li joined Harding Loevner in 2010 and has over 23 years of investment experience. Li also has research responsibilities for the Industrials sector globally, as well as Chinese equities. Since taking over as Co-Lead Portfolio Manager, Li has been actively reducing his stock coverage to allow him to focus more on his portfolio management responsibilities. That said, Li will maintain a level of stock coverage, as all portfolio managers must do. In addition, Li manages a paper portfolio for the Manager's Chinese Equity strategy. Lonsec has also met with Li during the review and considers him to be suitably experienced for the role. However, Lonsec believes the Company could benefit from his greater focus on his portfolio management responsibilities, and will monitor his stock coverage and workload in future reviews.
- In addition to Baughan and Li, there are two Portfolio Managers, Christopher Mack and Richard Schmidt, who each manage a paper portfolio for the Global Equity strategy. The paper portfolios are used to signal investment ideas from among the pool of analyst-rated stocks, and for development and succession planning purposes, noting that Li was also previously managing a paper portfolio for the Global Equity strategy. Importantly, no capital is invested into the paper portfolios. While Lonsec sees merit in the paper portfolios from a signalling and development standpoint, Lonsec highlights that there is no requirement for Baughan and Li to consider or closely follow the paper portfolios.
- The global sector and regional analysts of 33 are considered to be well-experienced and appropriately resourced. There are 17 dedicated researchers, while 16 also have portfolio management responsibilities. All but three investment staff members are centrally located in the Manager's Bridgewater (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. Given the number of analysts, stock coverage is narrowed along global sectors and certain more specialised regional lines such as Emerging Markets, Frontier Markets, China and Japan. 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. While noting that Baughan and Li also have analyst responsibilities, and both demonstrate a decent level of knowledge within their respective sectors, Lonsec will look to gain broader exposure to analysts in future reviews to build knowledge on their breadth of coverage and level of insights.
- Lonsec believes there is a strong alignment of interest between the investment team and investors. Senior members of the investment team including both Baughan and Li are Partners within the business. Non-Partners participate in a long-term deferred compensation plan that is linked to the success of their annual investment performance and achievement of other mutually agreed upon annual goals. While not an organisational requirement, there

is also a strong co-investment culture within the investment team.

- Lonsec considers key person risk to be high with Baughan. Key person risk associated with Li is considered to be moderate noting his recent transition into the Co-Lead Portfolio Manager role and reflecting the early stages of his portfolio management responsibilities. That said, the departure of either would likely necessitate a review of the Company's rating.
- Lonsec also notes the contribution to the Company's risk oversight by Pengana's Chief Investment Officer Nick Griffiths. Griffiths holds over 23 years of investment experience and is responsible for mandate monitoring, performance analysis and risk management across Pengana's investment strategies. Griffiths chairs the Risk Management Committee and regularly meets with the individual investment teams to review portfolio positioning, factor exposures and overall risk assessment. Lonsec believes this is a prudent accountability measure.

Research and portfolio construction

- Lonsec considers the Manager's research process to be robust and repeatable. Emphasis is placed on assessing four key quality-growth criteria – Competitive Advantage, Quality Management, Financial Strength and Sustainable Growth, using the Manager's stock ratings with clear Analyst accountability. Lonsec notes that while the Manager's philosophy has a strong quality-growth emphasis, the valuation sensitivity of the research process combined with the higher level of portfolio diversification has typically resulted in milder quality-growth characteristics than more growth-orientated peers within the Fundamental Growth peer group. Lonsec also believes there is appropriate rigour within the process with the use of standardised reports to compile company research, and an effective feedback loop between Analysts and with Portfolio Manager throughout the portfolio construction process.
- Investment ideas are primarily sourced from the global sector and regional analysts. While there is no minimum stock rating required, stocks must have undergone the research process and be analyst-rated to be considered for the portfolio. Stocks held within the paper portfolios may also be considered. Sector, industry, country and regional exposures are subject to strict portfolio guidelines despite the Company's benchmark unaware construct to ensure a high level of diversification with minimum number of exposures and maximum portfolio weightings. Lonsec expects stock selection to be the primary source of outperformance over time, but noting the Manager's use of absolute sector and regional limits, and absolute position sizing within the Company's portfolio guidelines. That said, Lonsec has observed the portfolio has typically exhibited benchmark-like sector and regional positioning, which may have the potential to curtail the Company's ability to achieve stronger performance outcomes relative to more growth-orientated peers.
- The Manager's focus on proprietary, fundamental research is sufficiently broad and well-suited to the quality-growth investment philosophy. Analysts

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have discretion to research any company within their sector or region. An analyst's universe is largely dependent on their previous experience and familiarity of the universe, as well as having some autonomy to venture outside their area of coverage. Analysts do not rely on screens or filters to uncover new ideas, and maintain a quality-growth ranking to monitor stocks within their coverage and assist in focusing their research efforts. Lonsec believes the combination of the Analysts' experience and use of quantitative tools should provide sufficient coverage of the investment universe.

- The underlying research approach is regarded as well-structured with a focus on consistently evaluating companies against the four key criteria. Analysts use a proprietary Quality Assessment (QA) Framework comprising ten factors, which are scored based on the Analyst's research to derive an overall rating. Lonsec believes the use of the common QA Framework should enhance the comparability of companies across sectors and regions, while adhering to the Manager's quality-growth philosophy. The estimated fair value of the company must also reflect the Analyst's research. The research is compiled in a standardised report, which is peer reviewed prior to a final stock rating being assigned. Lonsec believe the peer review process enhances the rigour of the final stock rating.
- A model portfolio for the Global Equity strategy is created by merging two sub-portfolios that have been separately constructed by each of the respective Co-Lead Portfolio Managers. Lonsec notes that while the individual sub-portfolio holdings, performance, and attribution and risk statistics are fully transparent internally at all times, the Manager does not routinely share details of the underlying sub-portfolios externally, making it particularly difficult for Lonsec to assess the relative strength of each sub-portfolio. At a high level, the Manager has advised that there are 17 common holdings across the two sub-portfolios (as at June 2021) representing approximately 34% of the model portfolio. The Manager has also provided some performance data of the underlying sub-portfolios, which suggests a consistent investment approach. The sub-portfolios in the model portfolio are roughly equal weight over a market cycle, and rebalanced when the sub-portfolios diverge by more than 6%.
- The aggregate stock positions in the model portfolio are a function of each Co-Lead Portfolio Manager's conviction. There are no hard stock limits although there is an internal maximum single holding limit of 5% for the model portfolio. Notably, each Co-Lead Portfolio Manager can exceed the portfolio guidelines within their own sub-portfolio as long as the model portfolio remains within the guidelines. Thus, the Co-Lead Portfolio Managers will regularly discuss the positioning within their own sub-portfolio, which Lonsec considers valuable particularly given the devolved nature of portfolio construction and to ensure the model portfolio adheres with the strict portfolio guidelines.

ESG integration

- The Manager has articulated a commitment to the integration of ESG within their investment process with evidence of a policy framework and public

positioning. The level of disclosure with respect to the Manager's proxy voting policy and outcomes is in line with peers, and while the Manager's engagement policy is also in line with peers, its engagement reporting has not yet been made publicly available.

- There is clear evidence of ESG integration within the research elements of the investment and valuation processes. The Manager also has a well-structured approach to the collection and use of ESG specific data, including the use of a proprietary data collection model. On a peer relative basis, Lonsec considers the overall level of ESG integration within this Company to be moderate.

Risk management

- Lonsec considers risk management to be embedded within the Manager's investment process, with emphasis being placed on companies that can satisfy the Manager's four key quality-growth criteria. Additionally, the focus on cashflow return on investment rather than adjusted earnings, absolute portfolio exposures and expected volatility should mitigate downside risk. Lonsec expects the performance outcomes of the Company to exhibit lower volatility relative to the benchmark and more growth-orientated peers that may not have an explicit quality emphasis.
- The sector, industry, country and regional exposures of the model portfolio are considered as subject to strict portfolio guidelines, which prescribes minimum number of exposures and maximum portfolio weightings to sectors/industries and countries/regions and ensures a high level of diversification. The Co-Lead Portfolio Managers are notified should a sub-portfolio be at risk of causing the model portfolio to breach any portfolio guidelines. Portfolio exposures and expected volatility are also monitored using a global multi-factor risk model. Lonsec considers the Manager's level of risk management to be adequate.
- In addition to the strict portfolio guidelines, Lonsec notes the role of Pengana's CIO in reviewing fund positioning. Lonsec looks favourably on the existence of a separate investment risk team removed from the buy/sell decision making process in strengthening the investment process.

Funds under management

- As at 30 June 2021, the Global Equity strategy had FUM of US\$25bn, and the Manager had total FUM of US\$88bn across eight strategies with a reasonable number of overlapping holdings. The Manager has advised that the estimated capacity of the Global Equity strategy to be US\$44-48bn based on the market liquidity of the strategy.
- Lonsec considers the Manager's estimated capacity to be reasonable, but has some concerns on the elevated level of FUM across the strategies. Notably, however, the strategy has continued to meet its investment objective, and Lonsec will continue to monitor the Manager's capacity management in future reviews.

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Performance

- Lonsec highlights that Harding Loevner was only appointed on 10 May 2021 to manage the Company. Accordingly, the Company's historical performance is not reflective of the current Manager. Lonsec believes the Company's performance should largely reflect the Manager's underlying Global Equity strategy going forward.
- The Company's investment objective is to generate consistent long-term returns whilst reducing volatility and the risk of losing capital, from investing in an ethically screened and actively managed portfolio of global businesses. Internally, the strategy aims to outperform the MSCI All Country World Total Return Index by 3% p.a. (before fees) over a market cycle, which the Manager has defined to be over the medium to long term. Lonsec notes that the underlying Global Equity strategy has been operating since December 1989. Based on composite data provided by the Manager, the underlying strategy has a history of outperformance against the benchmark while providing downside protection.
- Lonsec notes that a key component for shareholders of LIC's is its relative share price premium/discount to its NTA. Lonsec notes that there can be tendency for share prices to revert to their mean premium/discount throughout the market cycle, although this is not guaranteed and dependent on a range of factors. Purchasing at a lower discount/premium to the long-term mean discount/premium to pre-tax NTA will not guarantee outperformance. However, if the discount/premium looks expensive versus the long-term mean at the time of investment, it may be prudent to consider an alternative LIC.
- As at 31 July 2021, the Company's share price traded at a 5.2% discount to the pre-tax NTA per share of \$1.5096. This is a significant improvement from the previous year and compared to the historical one-year average discount of 13.4%. Lonsec notes that LIC's with global mandates generally trade at much wider discounts (historically, 10-15% on average). Lonsec commends the Company's effort in actively narrowing the discount by improving shareholder communication, investment performance and changing dividend mandates.

Overall

- Lonsec has assigned the Company a '**Recommended**' rating. Supporting the rating is Lonsec's conviction in the senior members of the investment team, and the robust and repeatable research process. Lonsec is also of the view that the Manager, despite being recently appointed to this Company, nevertheless, has developed a long track record of successfully implementing the investment process through multiple market cycles.
- Holding back the rating is the limited joint track record of Co-Lead Portfolio Managers Peter Baughan and Jingyi Li (only managing live portfolio since 2021), which is considered to be still in its infancy, and the milder quality-growth and diversified investment approach, which may curtail the Company's ability to achieve stronger performance outcomes relative to more growth-orientated peers. Lonsec will seek to build greater conviction in these aspects in future reviews.

People and Resources

Corporate overview

Pengana Capital Group Limited (ASX:PCG) is a diversified funds management group founded in 2003 and headquartered in Sydney. As at 31 July 2021, Pengana had total FUM of \$4bn.

Harding Loevner has been appointed as the investment manager for the Company.

Size and experience - Board of directors

NAME	POSITION	YEAR JOINED
FRANCIS GOOCH	CHAIR / NON-EXECUTIVE DIRECTOR	2017
DAVID GROVES	NON-INDEPENDENT, NON-EXECUTIVE DIRECTOR	2017
SANDI ORLEOW	INDEPENDENT, NON-EXECUTIVE DIRECTOR	2019
RUSSEL PILLEMER	NON-INDEPENDENT, MANAGING DIRECTOR	2017

The Board has the responsibility to ensure that the Company is properly managed to protect the interest of shareholders in a manner that is consistent with the LIC's obligation to all stakeholders. This includes meeting its investment objectives.

The Board has a broad range of experience in investment management, combined with financial and commercial expertise.

Frank Gooch is Chair and a Non-Executive Director with more than 30 years of experience in the finance and investments industry. He is also a member of the Audit, Risk and Compliance Committee and Independent Board Committee. Gooch has over 24 years of experience in the LIC industry after serving as an Executive of Milton Corporation Limited since 1996. He became Chief Executive in 1999 and was appointed Managing Director in 2004. Gooch retired from Milton on 31 July 2018.

David Groves is a Non-Executive Director with more than 25 years of experience as a Company Director. He is also a member of the Audit, Risk and Compliance Committee. David is also a Non-Executive Director of Pengana Capital Group Limited, Chair of the Pengana Group Audit, Risk and Compliance Committee and a member of the Pengana Group Nomination and Remuneration Committee. Groves is also a Director of Pipers Brook Vineyard Pty Ltd and Tasman Sea Salt Pty Ltd, and serves as an Executive Director of a number of private companies. Groves is a former Director of Equity Trustees Ltd, Tassal Group Ltd, GrainCorp Ltd and a former Executive with Macquarie Bank Limited and its antecedent, Hill Samuel Australia. He is a member of the Australian Institute of Chartered Accountants and a Fellow of the Australian Institute of Company Directors. Sandi Orleow is a Non-Executive Director and has over two decades of experience in financial services across superannuation, asset management, consulting and research. Orleow currently holds several committee and director roles, including Independent Member Investment Committee Statewide Super, Investment Committee Infrastructure Partners Investment Fund (IPIF), Investment Advisory Board ACT Treasury, Investment Committee Over Fifty Guardian Friendly

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Society Ltd and is a Director of the CFA Sydney Society. Orleow is a CFA Charterholder, a graduate of the Australian Institute of Company Directors and a Banking + Finance Oath Signatory.

Russel Pillemer is a Non-Executive Director and also Managing Director and Chief Executive Officer of Pengana Capital Group Limited. Pillemer co-founded Pengana in 2003 and has been its Chief Executive Officer since inception. Prior to founding Pengana, Pillemer worked in the Investment Banking Division of Goldman Sachs in New York, where he specialised in providing advice to funds management businesses. Before moving to New York, he was responsible for leading Goldman Sachs' Australian Financial Institutions Group. Russel was previously Chair of Centric Wealth Group and a Principal of Turnbull Pillemer Capital. He is a member of the Institute of Chartered Accountants in Australia and has a Bachelor of Commerce (Hons) from the University of New South Wales.

Board remuneration

The annual fees paid to the Board during the Financial Year ending 30 June 2020 were as follows: Gooch – \$65,700, Groves – \$43,800, and Orleow – \$43,800.

As per shareholder approval in 2013, total Directors fees are capped at \$250,000 p.a. Thus, the Company has incurred annual directors fees well below this amount (approximately \$150,000) during the Financial Year ending 30 June 2021.

Investment manager

Harding Loevner is a specialist global equities investment manager headquartered in Bridgewater, New Jersey (US). The firm was founded in 1989 by former managers for the Rockefeller family and remains 34% employee owned, with the remaining 66% owned by Affiliated Managers Group (NYSE:AMG). As at 30 June 2021, the firm had total FUM of US\$88bn.

Size and experience - Investment team

NAME	POSITION	EXPERIENCE INDUSTRY / FIRM
PETER BAUGHAN	CO-LEAD PORTFOLIO MANAGER / ANALYST	38 / 24
JINGYI LI	CO-LEAD PORTFOLIO MANAGER / ANALYST	23 / 11
CHRISTOPHER MACK	PORTFOLIO MANAGER / ANALYST	17 / 17
RICHARD SCHMIDT	PORTFOLIO MANAGER / ANALYST	35 / 10
GLOBAL SECTOR AND REGIONAL ANALYSTS (N=33)	AVERAGE	20 / 9

Peter Baughan joined Harding Loevner in 1997 as an Analyst and was appointed Co-Lead Portfolio Manager for the Global Equity strategy in 2003. Baughan is also a Portfolio Manager for the World Equity strategy. Prior to joining Harding Loevner, Baughan was an Investment Analyst and Private Equity Manager at Rockefeller & Co. between 1988-1997, and a Distressed Debt Manager at Chase Manhattan Bank between 1983-1988.

Jingyi Li joined Harding Loevner in 2010 as an Analyst and was appointed Co-Lead Portfolio Manager for the Global Equity strategy in January 2021. Li is also a

Portfolio Manager for the World Equity and Chinese Equity strategies. Prior to joining Harding Loevner, Li was a Vice President at New China Capital Management between 2005-2010, and was a Summer Analyst at Harding Loevner in 2004.

Team structure

There are 33 global sector and regional analysts, 17 of which are dedicated researchers, while 16 also have additional portfolio management responsibilities. Stock coverage is organised along global sectors and certain more specialised regional lines, such as Emerging Markets, Frontier Markets, China and Japan. All but two Analysts are centrally located at head office.

Investment team remuneration

Harding Loevner provides long-term equity or equity-linked compensation incentives to align employees to the long-term investment success of end investors. The vesting period for equity ownership is 10 years.

All other employees participate in a long-term deferred compensation that has a five-year vesting period for each year's contribution. The degree of participation is determined annually according to the employee's tenure and overall contributions to the firm's success.

Research Approach

Overview

RESEARCH PHILOSOPHY	FUNDAMENTAL, BOTTOM-UP
TARGET COMPANY	HIGH QUALITY, GROWING BUSINESSES AT REASONABLE PRICES
MINIMUM MARKET CAPITALISATION	US\$1BN
NUMBER OF STOCKS IN MANAGER'S UNIVERSE	7,500
NUMBER OF STOCKS FULLY MODELLED/RESEARCHED	APPROXIMATELY 475
RESEARCH INPUTS	ANNUAL REPORTS AND OTHER COMPANY DISCLOSURES, REVIEWING SPECIALISED INDUSTRY JOURNALS, PARTICIPATING IN INDUSTRY AND INVESTMENT CONFERENCES, CONDUCTING INTERVIEWS WITH COMPANY MANAGEMENT OTHER INDUSTRY PARTICIPANTS
BROKER RESEARCH	USED TO AUGMENT INTERNAL RESEARCH
VALUATION OVERVIEW	CASHFLOW RETURN ON INVESTMENT (CFROI)

Universe Filtering

Analysts draw upon their experience to identify companies that may qualify for further research. Inputs analysts may use to uncover new ideas include investigations into competitors, suppliers and customers of companies under coverage. They may also uncover additional ideas from company meetings, investor conferences and trade shows.

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. Analysts do not explicitly screen on stock price. 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, growth potential and management quality. Research efforts include analysing annual reports

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and other disclosures, reviewing industry journals, participating in industry and investment conferences, and meetings with management and other industry participants.

A proprietary Quality Assessment (QA) Framework is used by analysts for each company. The QA Framework ensures consistency in research output and comprises ten factors to evaluate the company against the Manager’s four key quality-growth criteria as follows:

Competitive Advantage

- Threat of New Entrants
- Threat of Substitution
- Bargaining Power of Buyers
- Bargaining Power of Suppliers
- Intensity of Rivalry

Quality Management

- Foresight and Change Management
- Environmental, Social, and Governance (ESG) Risk Factors

Financial Strength

- Strength of Free Cash Flow
- Balance Sheet Strength

Sustainable Growth

- Growth Persistence and Variability

Analysts score each factor based on their research to arrive at an overall QA rating for each company. If the company can satisfy the four key criteria, valuation analysis is conducted to estimate the stock’s fair value. Analysts will also establish fundamental ‘mileposts’ to track the company against its investment thesis.

The research is compiled in a standardised report that includes a research summary, QA Framework, valuation analysis and the investment mileposts. After seeking feedback from the team, analysts will rate the stock (best buy, buy, hold or sell), and monitor and revise the rating as necessary.

Valuation

The valuation analysis begins with the construction of a financial model using the company’s historical income statements, balance sheets, and cash flow statements. Analysts draw upon the industry and company research from the QA Framework to develop their long-term forecasts of earnings and cash flows.

Based on the forecasts, analysts estimate the company’s fair value using a multi-stage cashflow return on investment (CFROI) model. Analysts may also use other valuation methods to check their estimate, including discounted cash flow and ratio analysis.

Portfolio Construction

Overview

BENCHMARK	MSCI WORLD TOTAL RETURN INDEX (NET) IN AUD
EMERGING MARKETS PERMITTED	YES
INTERNAL RETURN OBJECTIVE	TO OUTPERFORM THE BENCHMARK BY 3% P.A. (BEFORE FEES) OVER A MARKET CYCLE
INTERNAL RISK OBJECTIVE	TO ACHIEVE A LOWER STANDARD DEVIATION OF RETURNS THAN THE BENCHMARK OVER A MARKET CYCLE
PORTFOLIO MANAGEMENT APPROACH	GARP (QUALITY/GROWTH)
INVESTMENT STYLE	PORTFOLIO MANAGER
PORTFOLIO DECISION MAKING	DEVOLVED TO EACH CO-LEAD PORTFOLIO MANAGER (TWO SEPARATE SLEEVES)
STOCK SELECTION	BOTTOM-UP
TOP-DOWN INFLUENCE	NOT CONSIDERED
MARKET CAPITALISATION BIAS	ALL CAP
TYPICAL NUMBER OF HOLDINGS	35 – 75
EXPECTED PORTFOLIO TURNOVER	25% P.A.
OBSERVED ACTIVE SHARE	82.5% (JULY 2021)
PORTFOLIO EXPOSURE IN TOP 10 HOLDINGS	27.4% (JULY 2021)

Decision making

Only stocks that have undergone the research process and become analyst-rated may be considered for the Global Equity strategy.

Each Co-Lead Portfolio Manager constructs a separate sub-portfolio by selecting stocks from the pool of analyst-rated stocks based on their potential risk-adjusted returns and ability to enhance the portfolio’s overall risk/return profile. The two sub-portfolios are merged to create the Global Equity strategy model portfolio.

Position sizes within each sub-portfolio are determined based on the judgment of the respective Co-Lead Portfolio Manager. Considerations in managing each stock’s position size include:

- Assessment of the company’s quality-growth characteristics based on the analyst’s research;
- The stock’s valuation relative to other companies rated by the analysts;
- Liquidity of the stock; and
- The stock’s potential impact on the portfolio’s overall risk profile (i.e. volatility).

Buy / Sell drivers

The Co-Lead Portfolio Manager will discuss with the analysts the company’s long-term fundamentals and status of the investment mileposts prior to initiating or exiting a stock position.

The decision to reduce or exit a stock is typically driven by one of four reasons:

- The company no longer satisfies the Manager’s quality-growth criteria;
- The company has failed to achieve the mileposts established by the analyst to track its investment thesis;
- Other more attractive opportunities are identified; or
- A stock is approaching the portfolio guidelines limit of 5% of the model portfolio.

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Risk Management

Risk limits

SEPARATE INVESTMENT RISK MONITORING	YES
STOCK LIMITS	MAXIMUM 5%
SECTOR / INDUSTRY LIMITS	MAXIMUM 25% (GICS LEVEL 1) / 15% (GICS LEVEL 3)
MINIMUM NUMBER OF SECTORS	MINIMUM SEVEN SECTORS (GICS LEVEL 1) AT ANY ONE TIME
COUNTRY / REGION LIMITS	VARIES BY COUNTRY / REGION
MINIMUM NUMBER OF MARKETS	MINIMUM 15 DIFFERENT MARKETS AT ANY ONE TIME
EMERGING MARKETS LIMIT	MAXIMUM 25% (IN AGGREGATE)
CASH LIMIT	MAXIMUM 10%

The Company has varied maximum country and region limits. The following are the specified limits for countries and regions:

- United States: 25-65%
- France, Germany, Japan, Switzerland and United Kingdom: 0-20% each
- China: 0-15%
- China and Hong Kong (in aggregate): 0-15%
- Australia, Canada, Hong Kong and Netherlands: 0-10% each
- Brazil, India, South Korea, and Taiwan: 0-7% each
- Other single developed or emerging market: 0-5%
- Single frontier market: 0-3%
- Emerging and frontier (in aggregate): 0-25%
- Emerging markets (in aggregate): 0-25%
- Frontier markets (in aggregate): 0-10%

The Company is expected to be fully invested with cash holding typically around 3%.

Risk monitoring

Portfolio exposures and expected volatility (both absolute and relative to the benchmark) are monitored using a global multi-factor risk model. At the portfolio construction level, risk is managed by strictly enforcing portfolio guidelines for all investment strategies in absolute terms as a percent of the model portfolio. The model portfolio is also subject to periodic reviews by the CIO.

Pengana also monitors risk limits separately from the investment manager. Risk reports are generated for the Company, which are 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 Company 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

The Company has relatively broad sector/country constraints and guidelines applying to industry positioning. Any exposure to emerging market

companies will also generally have a greater market risk (i.e. Beta). Accordingly, investors should be mindful of the potential for sharper movements in the market price of these investments.

Currency risk

The Company 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.

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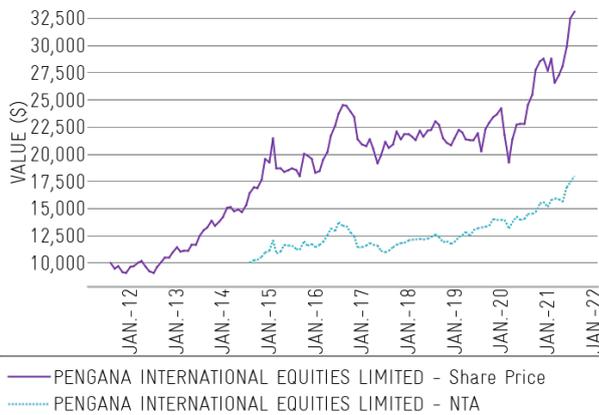
Quantitative Performance Analysis - annualised after-fee % returns (at 31-8-2021)

Performance metrics

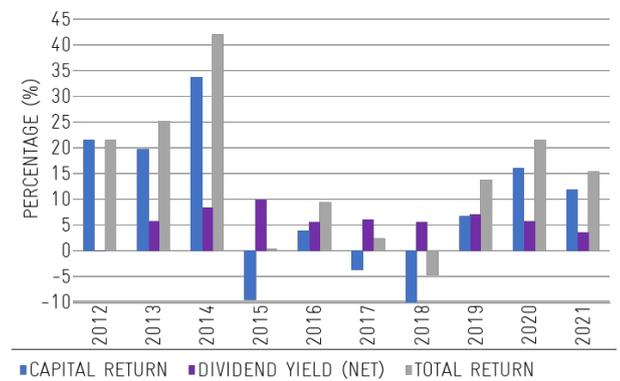
	1 YR	3 YR	5 YR	10 YR
TOTAL RETURN (% PA)	35.24	12.93	6.21	12.73
STANDARD DEVIATION (% PA)	16.39	18.33	16.36	16.04
EXCESS RETURN (% PA)	3.93	-1.63	-9.26	-3.78
WORST DRAWDOWN (%)	-7.69	-20.35	-21.93	-21.93
TIME TO RECOVERY (MTHS)	3	5	40	40
TRACKING ERROR (% PA)	19.55	15.75	15.98	15.39

PRODUCT: PENGANA INTERNATIONAL EQUITIES LIMITED
 PRODUCT BENCHMARK: MSCI WORLD NR INDEX AUD
 TIME TO RECOVERY: NR - NOT RECOVERED, DASH - NO DRAWDOWN DURING PERIOD

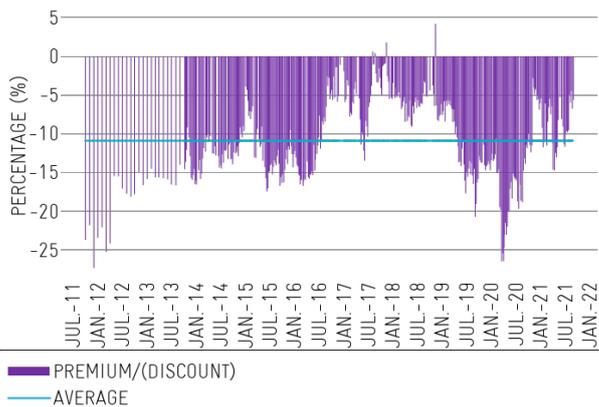
Growth of \$10,000 over 10 years



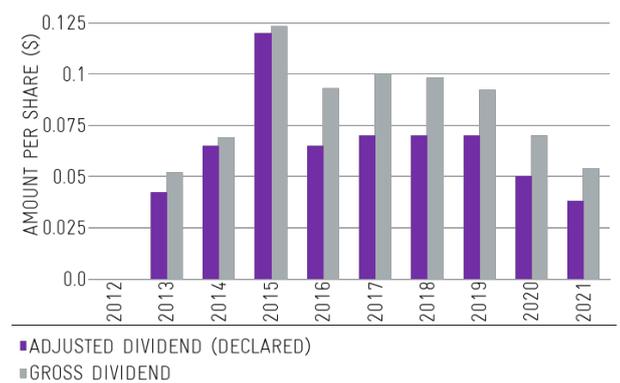
Calendar Year Returns over 10 years



Share Price Premium/Discount to NTA over 10 years



Dividend Record over 10 years



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Glossary

[Click here for the glossary of terms.](#)

About Lonsec

Lonsec Research Pty Ltd (Lonsec) is an investment research house with specialist areas of expertise, that was originally established in 1994 and the current entity was registered on 23 June 2011. From 1 July 2011, Lonsec became a fully owned subsidiary of Lonsec Fiscal Holdings Pty Ltd, a privately owned entity with a multi-brand strategy of providing leading financial services research and investment execution. Lonsec believes that professional financial advisers need informed opinions on the best investment strategies and financial products to provide real value for their clients. To meet this need, Lonsec has in place an experienced research team, which draws on a robust research process to undertake in-depth assessment of managed fund products.

Analyst Disclosure and Certification

Analyst remuneration is not linked to the research or rating outcome. Where financial products are mentioned, the Analyst(s) may hold the financial product(s) referred to in this document, but Lonsec considers such holdings not to be sufficiently material to compromise the rating or advice. Analyst holdings may change during the life of this document. The Analyst(s) certify that the views expressed in this document accurately reflect their personal, professional opinion about the matters and financial product(s) to which this document refers.

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