



Product Review

Pengana International Equities Limited

ISSUE DATE 09-05-2023

About this Review

| | |
|-----------------------|------------------|
| ASSET CLASS REVIEWED | GLOBAL EQUITIES |
| SECTOR REVIEWED | GLOBAL LARGE CAP |
| SUB SECTOR REVIEWED | LIC |
| TOTAL COMPANIES RATED | 5 |

About this Company

| | |
|-------------------|---|
| LIC REVIEWED | PENGANA INTERNATIONAL EQUITIES LIMITED |
| TICKER | PIA |
| 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 |
| PERFORMANCE FEE | 15.38% (OF ANY RETURN GREATER THAN THE BENCHMARK) |

Market data

| | |
|--------------------------------|-----------------|
| MARKET CAPITALISATION | \$243M |
| SHARES ON ISSUE | 257M |
| SHARE PRICE (8-5-2023) | \$0.94 |
| 52 WEEK HIGH/LOW SHARE PRICE | \$1.14 / \$0.84 |
| NTA (28-4-2023) | \$1.19 |
| 52 WEEK HIGH/LOW NTA | \$1.19 / \$1.05 |
| SHARE PRICE PREM/(DISC) TO NTA | -20.80% |

Board of Directors

| | |
|------------------|---------------|
| NO. OF DIRECTORS | 4 |
| CHAIRPERSON | FRANCIS GOOCH |

About the Investment Manager

| | |
|--------------------|--------------------|
| INVESTMENT MANAGER | HARDING LOEVNER LP |
|--------------------|--------------------|

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 LIMIT | 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

| | |
|----------------|------------------|
| MAY 2023 | INVESTMENT GRADE |
| APRIL 2022 | RECOMMENDED |
| SEPTEMBER 2021 | RECOMMENDED |

What this Rating means

The 'Investment Grade' rating indicates that Lonsec has conviction the financial product can generate risk adjusted returns in line with relevant objectives. However, if applicable, Lonsec believes the financial product has fewer competitive advantages than its peers.

Scope of this rating

- Lonsec has used a holistic approach in forming an opinion on this Listed Investment Vehicle's (LIV) ability to meet its stated investment objectives. The rating model includes an assessment of the underlying investment capability in addition to the vehicle's effectiveness. When assessing the underlying investment capability Lonsec has relied upon its Managed Funds research process. Vehicle effectiveness considers a range of characteristics in combination with empirical observations.
- The rating should not be considered, or in any way interpreted, as Lonsec's forward-looking opinion or otherwise on the 'intrinsic value' of the LIV and whether Lonsec believes this to be 'overvalued' or 'undervalued' relative to the prevailing traded price.

Strengths

- 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.
- The Manager's milder quality-growth and diversified investment approach may curtail the Fund's ability to achieve stronger performance outcomes relative to more growth-orientated peers, during environments that favour growth investing.
- The sub-portfolio investment approach introduces a degree of complexity and the potential to dilute the best ideas of each Co-Lead Portfolio Manager.
- The remuneration structure for Co-Portfolio Managers lacks direct alignment to aggregate performance.

ANALYST: ASHA RAHMAN | APPROVED BY: ELLIOT LUCAS

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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 of 28 February 2023, the Company had 256.46m shares on issue trading at \$0.95, which represented a 15.7% discount to the pre-tax NTA per share of \$1.127. The Company declared a quarterly fully franked dividend of 1.35 cents per share on 28 February 2023 following a fully franked dividend of 1.35 cents per share in the previous quarter.

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 management fees and costs of 1.23% p.a. of NAV. 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 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.

Using this Company

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

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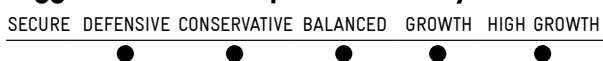
- The Company provides investors with exposure to global equity markets and accordingly may experience both positive and negative, at times sharp movements in the value of capital invested. Lonsec believes the Manager's quality-growth philosophy most closely resembles a GARP investment style and is expected 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.
- In March 2023, Mike Purtill joined as an Analyst covering Energy. His prior role was at Bank of America's Private Bank, as a senior equity analyst in this sector.
- Effective January 2023, David Loevner, founder of Harding Loevner, stepped down from his role as CEO. Loevner remains Executive Chairman. Aaron Bellish, the firm's Chief Operating Officer (COO) and member of the Executive Committee, was appointed CEO.
- There have been some ESG process enhancements to the ESG scorecard and risk assessment framework. The Fund also implemented a 15-point environmental and social red flag checklist for risk assessment in companies.
- There have been no other changes to the investment team or process since last year's review.

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.

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

- There have been three departures, one new hire and four promotions within the investment team:
 - Analyst Shali Zhu resigned in February 2022. Zhu covered Energy and Industrials. Two Associate Analysts also departed in 2022 for personal reasons, Michelle Lee and Timothy Nowacki.
 - Moon Surana, Financial Services Analyst, was promoted to manage a paper portfolio of the strategy.
 - David Glickman was promoted to Co-Deputy Director of Research during 2022. In January 2023, Glickman, also became a limited partner of the firm.
 - In April 2023, two Associate Analysts were promoted to the role of Analyst: Christopher Nealand and Isaac May. Nealand will cover Communication Services, Consumer Staples, and Industrials, while Isaac will cover Financials and Information Technology.

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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 Fund. 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. Li also served as a paper Portfolio Manager for the International Small Companies strategy from 2016-2018.
- Baughan joined Harding Loevner in 1997 and has over 39 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 believes he is a high quality investor with a sound knowledge of the investment process. Overall, Lonsec views Baughan's portfolio management skills and active engagement with relevant analysts positively. 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 24 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 considers Li to be suitably experienced for the role. However, the Fund could benefit from his greater focus on his portfolio management responsibilities. In light of Li's short track record as Co-Portfolio Manager, Lonsec will seek to build conviction in aspects including sell discipline and his ability to effectively manage turning points in the market.
- In addition to Baughan and Li, there are three Portfolio Managers, Christopher Mack, Richard Schmidt and Moon Surana, 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 31 are considered to be appropriately resourced. There have been three departures from the analyst team. Industrials Analyst Shali Zhu resigned in February 2022. Two Associate Analysts also departed in 2022 for personal reasons. However, for a well-resourced team, the impact of these departures is considered minimal. Pleasingly there have also been four promotions within the team. Moon Surana, Financial Services Analyst, was promoted to Portfolio Manager, managing a paper portfolio of the strategy. David Glickman was promoted to Co-Deputy Director of Research during 2022. In addition, two Associate Analysts were promoted to Analyst roles. The business has a heritage of development and internal promotions which Lonsec views positively for team retention. All but four 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 alignment of interest between the investment team and investors could be improved. There is no direct alignment to the strategy's aggregate performance for the co-Portfolio Managers as each are solely remunerated on their sub-portfolio. This is consistent with the more individualised decision-making structure of Portfolio Managers. Whilst this has its merits of heightened individual accountability, relative to peers this dilutes the sense of collective accountability and alignment to overall aggregate performance. That said, 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 Fund's rating.
- Lonsec also notes the contribution to the Company's risk oversight by Pengana's Chief Investment Officer Nick Griffiths. Griffiths holds over 25 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

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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.
- The Manager's focus on proprietary, fundamental research is sufficiently broad and well-suited to the quality-growth investment philosophy. Analysts 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 28 February 2023) representing approximately 35% 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%. Lonsec recognises that such multi-Portfolio Manager processes have merit, but the Manager's implementation of this approach trails peers, due to the lack of transparency into the outcomes of each Portfolio Manager's sleeve and the lack of total portfolio alignment in the remuneration structure.
- 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 logical particularly given the devolved nature of portfolio construction and to ensure the model portfolio adheres with the strict portfolio guidelines.

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 behind peers. The Manager has an articulated commitment to the integration of ESG within their investment process with clear evidence of public positioning and policy framework. The responsible investment policy is freely available on the firm's website and includes proxy voting and engagement policies. The level of disclosure with respect to proxy voting and engagement policies is behind peers with both frameworks lacking depth compared to peers. Reporting on voting outcomes is considered in-line

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with peers and the Manager has pleasingly published selected company engagements since the last review.

- The Manager has indicated that their Responsible Investment style is ESG Integration and as such that they take Environmental, Social and Governance factors into consideration when assessing investment opportunities. 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.
 - There are clear signs of robust ESG element as a core component of the Manager's research process. Research is undertaken in a structured manner and storage and sharing is robust. Lonsec was not, however, able to observe a systematised calibration process for ESG scores across analysts. With a clear scorable output from the research process providing the option of overall portfolio level analysis.
 - There are clear links from the Manager's research to the stock selection process through their cash flow modelling and stock valuation models. This adjustment is applied in a standardised and consistent manner.
 - Monitoring of ESG characteristics of the portfolio is clear, however, there are no ESG based targets or limits in place. Proprietary ESG Scores are used to monitor the overall ESG risk in the portfolio.
 - While engagement is a component of the Manager's approach, it is managed in a less structured manner than with some leading peers. There is no structured system for prioritising engagements, tracking outcomes or for measuring success.
 - Compliance Monitoring of ESG factors is deemed adequate however overall transparency provided to investors could improve with increased holding disclosure. Pleasingly voting on the Fund is directed by the Fund's portfolio manager directly.

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.

Fees

- Lonsec considers the Fund's fees higher than its peers, impacted by the management fees and costs of 1.23% p.a. Performance fee of 15.38% 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. Actual fees and costs may vary to these estimates, with performance fees having the potential to vary significantly based on the Fund's realised performance and the fee calculation requirements.

Funds under management

- As at 28 February 2023, the Global Equity strategy had FUM of US\$15.7bn, and the Manager had total FUM of US\$57.4bn 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\$46-50bn based on the market liquidity of the strategy.

Capacity management

- The Manager has advised that the estimated capacity of the Global Equity strategy to be US\$46-50bn 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 Fund 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. Over the year to 28 February 2023, the Company generated a return (as measured by share price performance) of -17.8%, underperforming the benchmark by 17.5%. Lonsec notes that the Fund's exposure to the 'Growth' style, has contributed to its underperformance over a period where Value meaningfully outperformed growth. However, other key contributors including sell discipline will be monitored closely by Lonsec in future reviews.
- 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 28 February 2023, the Company's share price traded at a 15.7% discount to the pre-tax NTA per share of \$1.127. This is a significant deterioration from the previous year and compared to the historical one-year average discount of 13.6%. Lonsec notes that LIC's with global mandates generally trade at wide discounts (historically, 10-15% on average). Lonsec will monitor the Company's effort in actively narrowing the discount.

Overall

- Lonsec has downgraded the Company's rating to an '**Investment Grade**' rating in its most recent review. Supporting the rating is 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 during environments that favour growth investing. The alignment of the Co-Portfolio Managers could be strengthened as the remuneration structure lacks direct alignment to aggregate performance. 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 28 February 2023, Pengana had total FUM of \$3.1bn.

Pengana has appointed Harding Loevner 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.

Francis (Frank) Gooch is Chairman and a Non-Executive Director. Gooch has more than 26 years of experience in the LIC industry after serving as an Executive of Milton Corporation Limited since 1996. He is also a member of the Audit, Risk and Compliance Committee and Independent Board Committee. 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, and is a member of the Audit, Risk and Compliance Committee. Groves is also a Director of Tasman Sea Salt Pty Ltd. He 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 Chartered Accountants Australia and New Zealand.

Sandi Orleow is a Non-Executive Director and Chairman of the Audit, Risk and Compliance Committee. Orleow has over two decades of experience in financial services across superannuation, funds management, consulting and research. Orleow is a

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member of Investment Advisory Board of ACT Treasury, is a Director of the CFA Sydney Society and CFA Australia National Diversity Chair.

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 2021 were as follows: Gooch – \$66,000, Groves – \$44,000, and Orleow – \$44,000.

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 28 February 2023, the firm had total FUM of US\$57.4bn.

Size and experience - Investment team

| NAME | POSITION | EXPERIENCE INDUSTRY / FIRM |
|---|--|----------------------------------|
| PETER BAUGHAN | CO-LEAD PORTFOLIO MANAGER / ANALYST | 40 / 26 |
| JINGYI LI | CO-LEAD PORTFOLIO MANAGER / ANALYST | 25 / 13 |
| CHRISTOPHER MACK | PORTFOLIO MANAGER / ANALYST | 19 / 19 |
| RICHARD SCHMIDT | PORTFOLIO MANAGER / ANALYST | 37 / 12 |
| GLOBAL SECTOR AND REGIONAL ANALYSTS (N=31) | AVERAGE | 22 / 10 |

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 31 global sector and regional analysts, 18 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 and other disclosures, reviewing industry journals,

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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 | 84.6% (FEBRUARY 2023) |
| PORTFOLIO EXPOSURE IN TOP 10 HOLDINGS | 29.4% (FEBRUARY 2023) |

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 and 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 LIMIT | 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.

Listed company risk

The market price of the Company's securities may not correlate exactly to the underlying value of the portfolio as reflected in its monthly or weekly NTA backing per share. The securities may trade on the ASX at a discount or a premium to the Company's monthly or weekly NTA backing per share.

Investment manager risk

The Company's success and profitability will largely depend on the investment manager's continued ability to manage the portfolio. Should the investment manager become unable to perform investment management services for the Company or should there be significant key personnel changes at the investment manager, the Company's investment activities may be disrupted and its performance negatively impacted.

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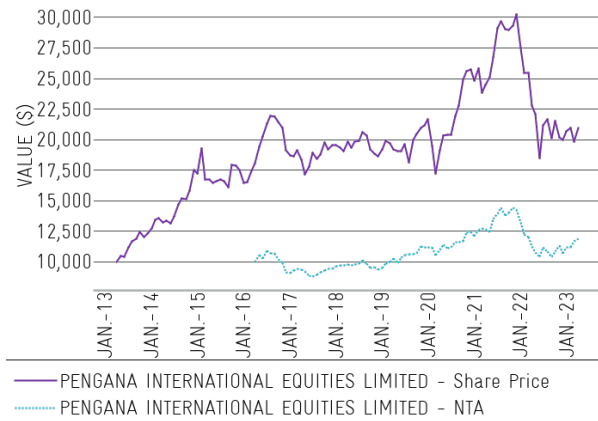
Quantitative Performance Analysis - annualised after-fee % returns (at 30-4-2023)

Performance metrics

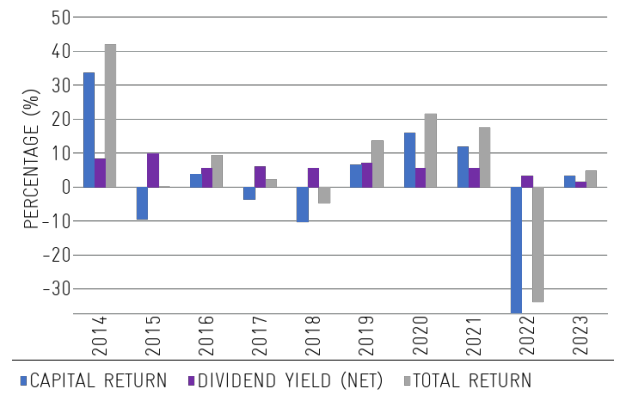
| | 1 YR | 3 YR | 5 YR | 10 YR |
|---------------------------|--------|--------|--------|--------|
| TOTAL RETURN (% PA) | -7.95 | 3.02 | 1.09 | 7.68 |
| STANDARD DEVIATION (% PA) | 27.36 | 21.72 | 20.20 | 18.17 |
| EXCESS RETURN (% PA) | -18.90 | -9.73 | -9.96 | -6.05 |
| WORST DRAWDOWN (%) | -18.69 | -38.83 | -38.83 | -38.83 |
| TIME TO RECOVERY (MTHS) | NR | NR | NR | NR |
| TRACKING ERROR (% PA) | 20.65 | 17.56 | 15.90 | 16.25 |

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

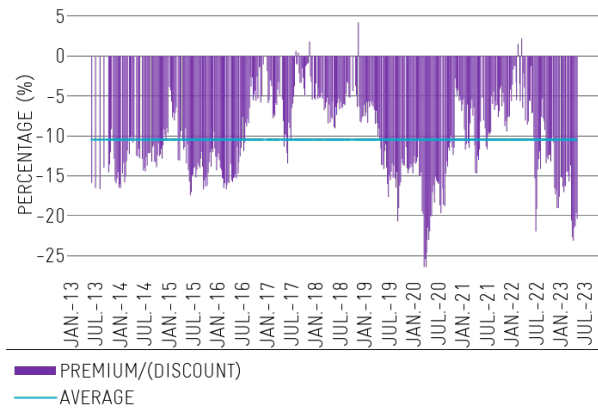
Growth of \$10,000 over 10 years



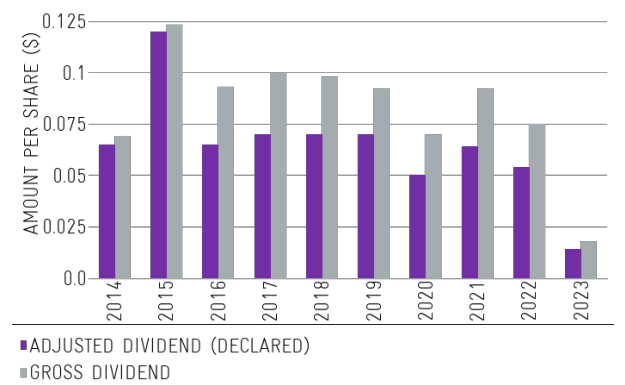
Calendar Year Returns over 10 years



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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