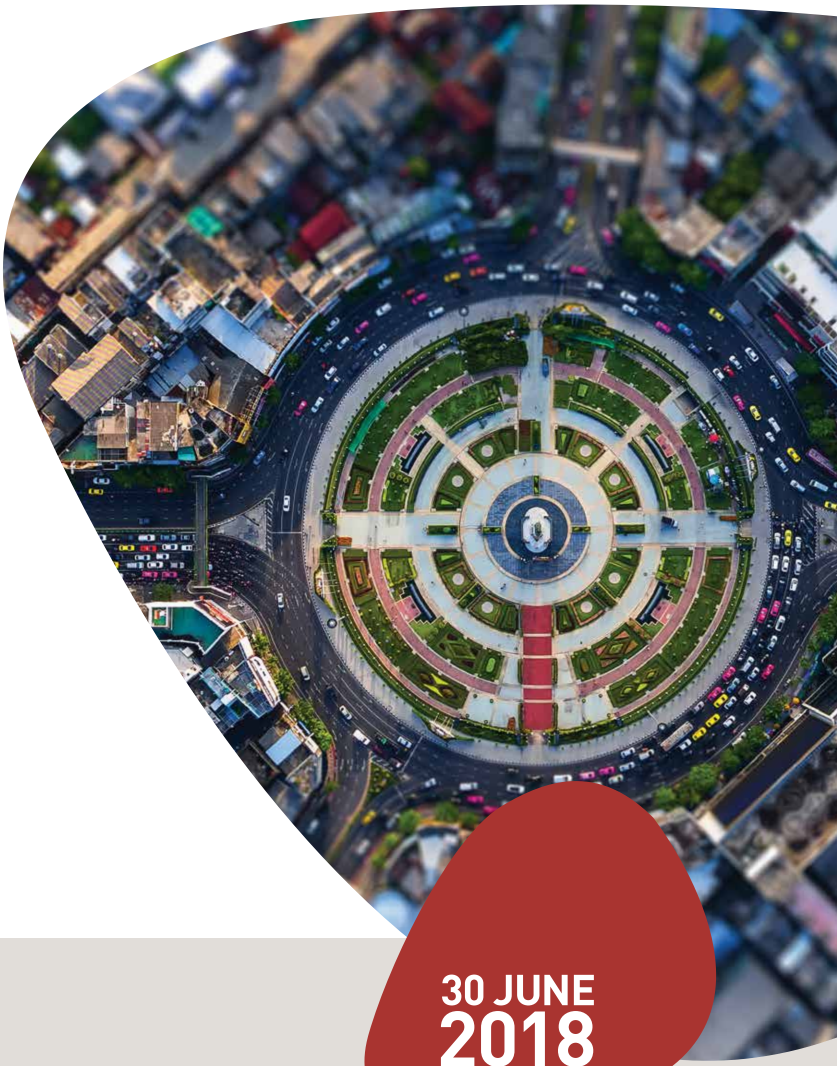
ANNUAL
REPORT

PENGANA
INTERNATIONAL
EQUITIES LIMITED



PENGANA INTERNATIONAL EQUITIES LIMITED

30 JUNE
2018

ANNUAL REPORT

ACN 107 462 966

PENGANA CAPITAL
HEAD OFFICE

Level 12, 167 Macquarie Street
Sydney NSW 2000
Australia

Ph: +61 2 8524 9900
Fax: +61 2 8524 9901

PENGANA.COM

PENGANA.COM/PIA

TABLE OF CONTENTS

Corporate Directory	5
Chairman's Report	6
Investment Manager's Report	8
Ethical Investment Policy	10
Directors' Report	11
Remuneration Report	15
Auditor's Independence Declaration	20
Statement of Profit or Loss and Other Comprehensive Income	21
Statement of Financial Position	22
Statement of Changes in Equity	23
Statement of Cash Flows	24
Notes to the Financial Statements	25
Directors' Declaration	42
Independent Auditor's Report	43
ASX Information	48

CORPORATE DIRECTORY

DIRECTORS

Francis Gooch	Chairman and Non-Executive Director
Julian Constable	Non-Executive Director
David Groves	Non-Executive Director
Russel Pillemer	Non-Executive Director

COMPANY SECRETARY
Paula Ferrao

PRINCIPAL AND REGISTERED OFFICE
Pengana International Equities Limited
Level 12, 167 Macquarie Street
Sydney NSW 2000 Australia
Tel: +61 2 8524 9900
Fax: +61 2 8524 9901
Email: clientservice@pengana.com
Website: www.pengana.com/pia

AUDITOR
Ernst & Young
200 George Street
Sydney NSW 2000 Australia

SHARE REGISTER
Computershare Investor Services Pty Limited
GPO Box 2975
Melbourne VIC 3001 Australia
Tel: 1300 855 080 or +61 3 9415 4000 (if outside Australia)
Website: www.computershare.com/au

CHAIRMAN'S REPORT

On behalf of the Board I am pleased to report to you on the financial performance of Pengana International Equities Limited (ASX:PIA) and to update you on the progress of the initiatives implemented during the 2018 financial year.

FINANCIAL PERFORMANCE

The Company posted a profit of $24.6 million after tax in the year to 30 June 2018, a significant improvement on the $22.9 million loss recorded in the prior comparable year. The result was driven by the strong investment performance of the portfolio throughout the year combined with a significant reduction in costs.

INVESTMENT PERFORMANCE

The international equities investment strategy implemented by Pengana Capital Group Limited (ASX: PCG) at the beginning of the financial year delivered a return of 11.9%[1] over the year.

It is pleasing to report that this proven strategy, which is designed to generate long-term consistent returns whilst reducing both volatility of returns and the risk of losing capital, delivered on its objectives in 2018.

While the euphoric and momentum-driven global market rewarded higher risk positions the Pengana team adhered to its principles and delivered a strong, less volatile performance. On every occasion during the year that PIA's benchmark, the MSCI World Total Return Index, Net Dividends Reinvested, in A$ ("MSCI World") declined by more than 2% over the year, the portfolio's performance declined less than the benchmark.

It is also worthy of note that the above result was achieved whilst strengthening the ethical process. In the year, the Investment Manager has engaged Sustainalytics, one of the world's two largest global providers of Environmental, Social and Governance ("ESG") and corporate governance research and ratings, to assist with the ethical review of companies before they are added to the PIA portfolio.

In the Investment Manager's report that follows, Jordan Cvetanovski and Steven Glass, PIA's investment managers, discuss the key drivers of the portfolio's performance for the year ending 30 June 2018 and the portfolio positioning as the portfolio enters its second year under the new strategy.

1. Performance figures refer to the movement in net assets per share, reversing out the impact of option exercises and payments of dividends, before tax paid or accrued on realised and unrealised gains. Past performance is not a reliable indicator of future performance, the value of investments can go up and down.

FEES AND EXPENSES

Total investment management fees were 13.5% lower than the prior year after an amendment of the Investment Management Agreement was approved at the Company's Annual General Meeting held in November 2017. The amendment comprised a reduction in the management fee from 1.5% p.a. to 1.2% p.a. and the performance fee high water mark was reset to nil, with effect from 1 December 2017. The net fees paid to the Investment Manager were $683,000 lower than the prior year.

An increased focus on corporate expenses, including an 17.8% reduction in directors' fees, contributed to a 41.6% fall in overheads when compared to the costs incurred in the prior financial year.

SHARE PRICE

The Company's share price increased from $1.105 at 30 June 2017 to $1.155 at 30 June 2018. When this increase is combined with the fully franked dividends of 7 cents per share paid over the course of the 2018 financial year, and the market value of the options at 30 June 2018 (0.8 cents per option), the Total Shareholder Return ("TSR") equates to 11.6% per annum.

The discount to Net Tangible Asset ("NTA") per share at which the PIA shares traded during year narrowed to be just under 5% at 30 June 2018.

LOWER TAX RATE

Legislation has been enacted to lower the company tax rate to 27.5% for companies with aggregate turnover of less than $50 million. The lower tax rate is effective from the beginning of the 2019 financial year.

If this lower tax rate is effected, it will decrease tax expenses but will also affect the value of the franking credits attached to dividends paid in the 2019 financial year.

DIVIDEND

A final dividend of 3.5 cents per share was declared to be paid on 28 September to shareholders on the register at the record date of 21 September. This brought the total dividend for the financial year to 7.0 cents per share, which was in line with the 2017 full year dividend.

The interim dividend of 3.5 cents per was fully franked at the rate of 30% and was paid on 30 April 2018.

The final dividend is expected to be fully franked but at the rate of 27.5%.

Shares acquired through the exercise of the bonus options prior to the record date of 21 September will be entitled to the 2018 final dividend.

The level of franking attached to the final dividend may depend on the number of options exercised prior to the dividend record date. If less than 215.4 million options are exercised before the record date, the dividend will be 100% franked, otherwise the dividend will be partially franked. The final franking attached to the dividend will be announced to the ASX on 24 September, the business day after the record date.

COMMUNICATION

During the 2018 financial year, the Investment Manager held two roadshows across seven major Australian cities. These presentations were well attended by more than 1,000 shareholders who were able to meet directors, members of the investment team and executives of the Investment Manager. We have received positive feedback from attendees, and the investment manager has once again indicated it will hold its first roadshow for the 2019 financial year this coming October, with details to follow in the coming weeks.

Email is the fastest, most cost effective and preferred method of shareholder communication. Shareholders who have provided their email to Computershare receive invitations to the roadshow, the company's newsletters and insights as well as notifications of ASX announcements made by the company.

To keep your email address updated and current on your Computershare account, update your communication preferences at www.computershare.com.au/easyupdate/pia and select "Email" for delivery of "Company Information" or alternatively call 1300 855 080 or +61 3 9415 4000 (outside Australia), Monday to Friday AEST 8:00am to 7:00pm.

ANNUAL GENERAL MEETING

Our Annual General Meeting will be held at 12:30pm on 24 October 2018 at Computershare, Level 4, 60 Carrington Street, Sydney, NSW, 2000.

We encourage you, the owners of the Company, to attend the AGM and meet your Directors and representatives of the Investment Manager. If you are unable to attend, we encourage you to vote on the proposed resolutions by lodging your proxy vote.

On behalf of the Board, I would like to thank all our shareholders for your ongoing support.

Frank Gooch
Chairman

Pengana International Equities Limited

14 August 2018

INVESTMENT MANAGER'S REPORT

FY18 was a watershed year for the portfolio. In July 2017, the Pengana International team assumed responsibility for the portfolio from the prior manager. During the first two months of FY18, we transformed the portfolio to reflect our investment strategy. This was no minor task as it involved exiting virtually all of the incumbent positions, some of which were highly illiquid. The transformation was initially a performance headwind and we are pleased to report that by September 2017 it was completed.

As a reminder, we aim to achieve superior AUD-denominated returns with low volatility. The superior returns aim can be disaggregated into (i) capital preservation; (ii) capital appreciation. The key point is that we are not simply seeking the highest possible returns, but we are also seeking to minimize risk, something that is not readily apparent during bull markets.

In FY18, the portfolio delivered a respectable 11.9%[1] (net) return. We believe this return was satisfactory as it was delivered without accepting excessive risk, and was held back by the cost of option protection employed during most of the year. While the costs of reducing risk might not be appreciated in the current market environment, we believe it has served our fellow investors well.

The stocks that made the largest positive contribution to performance include: Dollar General (discount retailer), IAC (Internet conglomerate), Wacker Chemie (chemical company), Bakkafrost (salmon farmer), and Flow Traders (financials). It is worth highlighting the diversity of the industries represented by these names.

The stocks that made the largest negative contribution to performance were Bharti Infratel (cellular towers), Reckitt Benckiser (consumer staples), TomTom (maps), Seeing Machines (a stock we inherited and exited), and Celgene (healthcare). While Celgene did experience a relatively material decline (-38%), the declines in the other stocks were relatively minor (<16%). The truth is that these stocks were less of a headwind to relative performance than the stocks we didn't own, namely the US high growth Internet companies.

As discussed in our quarterly reports, the most important decision we made during FY18 was to largely exit US high growth Internet stocks during December 2017 and January 2018. This has proved a material headwind to relative performance as not owning the FAANG+M (Facebook, Amazon, Apple, Netflix, Google, Microsoft) cost the portfolio >1.8% in performance relative to its benchmark, the MSCI World Index.

We can't say for certain what is driving this insatiable demand for Internet growth stocks, however, there are a few factors we can point to.

Firstly, these companies are winning. They are growing, disrupting vast markets and in many cases have solid balance sheets and cash flows.

Secondly, in an investment landscape where investors are uncertain about many things like the sustainability of Chinese growth, Brexit, sustainability of Europe's recovery or European politics, and trade war repercussions, the big Internet growth companies with their enormous cash piles and continued growth look like a safe haven.

1. Performance figures refer to the movement in net assets per share, reversing out the impact of option exercises and payments of dividends, before tax paid or accrued on realised and unrealised gains. Past performance is not a reliable indicator of future performance, the value of investments can go up and down.

Thirdly, the unprecedented momentum in these companies' share prices make it an incredibly difficult decision for money managers to ignore this sector. This momentum has also attracted heavy flows in technology related ETFs from retail investors.

These are all strong arguments for owning Internet growth stocks. As long as this "goldilocks" scenario persists, the outperformance of this sector is likely to persist. This might also lead to a period of underperformance of the portfolio versus the index. Nonetheless, their unjustifiable valuations are simply a circuit breaker for us. We have seen situations like this play out before and lessons from the late 90's Dot-Com era still resonate.

As explained above, our aims are multifold. Firstly, to generate returns for our clients, but equally importantly, to lower volatility and preserve our clients' capital. Not having large exposure to Internet growth companies is a capital preservation decision.

Not investing in one sector does not mean that there aren't numerous opportunities available in various other different sectors. As illustrated by the variety of industries represented in our best performing stocks, our team has vast experience investing across many industries and regions over several cycles. The portfolio is well-diversified, and not reliant on any one sector's performance.

Our current portfolio makes a lot of sense to us. The portfolio's positioning at 30 June 2018 is summarised as:

- 87% of the portfolio is invested in equities and 13% is held in cash – 4% of the equities exposure is in gold-linked shares.
- Segment exposure continues to be 60-65% in "Core", 20-25% in "Cyclical" and 5-10% in "Opportunistic".
- Some put options (portfolio insurance) over the S&P500 – since late 2017, we have maintained relatively large insurance coverage largely reflecting our concerns around equity market valuations. As explained above, this has been a notable performance headwind but (while not immediately obvious), it has also reduced the portfolio's risk.
- Relatively low US exposure (36%), some direct Asian exposure (11%), relatively high European exposure (36%) and minimal LatAm exposure (4%) – the relatively low US exposure and high European exposure reflects the fact that the US market is generally notably more expensive than the European market.
- 29% of the portfolio is invested in small or mid-cap companies, 48% is in large-caps, and 10% is in mega-caps.
- Approximately 11% of the portfolio is invested in IT but none of this exposure is in the FAANGs.
- The portfolio doesn't currently hold any US banks or insurers.

We look forward to this year and beyond and we thank you for entrusting us with your hard-earned capital. It is a responsibility we take very seriously.

Jordan Cvetanovski
Portfolio Manager

Pengana International Equities Limited

14 August 2018

Steven Glass
Deputy Portfolio Manager and Analyst

Pengana International Equities Limited

14 August 2018

ETHICAL INVESTMENT POLICY

Pengana International Equities Limited ("PIA") is committed to responsible investing and seeks to avoid investing in businesses that are, in its opinion, currently involved in activities that are unnecessarily harmful to people, animals or the environment. These activities include:

- the manufacture or sale of weapons and weapon components,
- tobacco manufacture,
- gambling outlets or systems,
- intensive animal farming,
- animal testing for cosmetics,
- activities that give rise to human rights violations,
- unremediated destruction of the environment,
- uranium mining and nuclear reactors, and
- fossil fuel exploration, production, refining, storage and transportation.

PIA utilises a negative screening process which seeks to avoid investment in companies that derive operating revenues from direct and material business involvement in these sectors. Labour standards are considered but not systematically taken into account in the selection, retention or realisation of investments.

PIA's ethical investment policy is implemented by the Investment Team of its Investment Manager, Pengana Capital Group Limited ("PCG"). Before a company is added to the portfolio, the extent of an investee company's business involvement in screened activities is assessed by reference to a Business Involvement report sourced from Sustainalytics, an independent provider of Environmental, Social and Governance ("ESG") and corporate governance research and ratings. Consideration of environmental, social and ethical issues raised by prospective and existing investments are investigated within the investment research process and discussed at the Investment Team meeting on an ad-hoc basis. The PCG Risk Officer has final veto power on whether a stock meets the screening criteria for inclusion in the portfolio.

PCG engages an independent ESG researcher, to conduct an annual review of companies newly introduced to the portfolio since the last review. The outcome of the review is a report highlighting investments which may not be compliant with the ethical investment policy. The report is considered by the Investment Team and follow-up analysis of possible non-compliant investments may be undertaken. PCG has final discretion on whether or not to divest non-compliant investments.

Where it is decided to divest, the asset is disposed as soon as practicable, as determined on a case-by-case basis, whilst endeavouring to realise the best price it reasonably can, taking into account liquidity and other market forces. On occasion PCG may choose to engage with an investee company rather than divest as a better way to effect change.

PCG is a member of the Responsible Investment Association of Australasia (RIAA) and is a signatory to the United Nations-backed Principles for Responsible Investment (PRI). This is a voluntary global initiative to encourage investment institutions to incorporate environmental, social and governance (ESG) considerations into their decision-making and reporting practices.

DIRECTORS' REPORT

PENGANA INTERNATIONAL EQUITIES LIMITED

Your Directors present their report on Pengana International Equities Limited ("the Company") formerly Hunter Hall Global Value Limited, for the financial year ended 30 June 2018.

DIRECTORS

The names of Directors in office at any time during or since the end of the year are:

Francis Gooch	Chairman and Non-Executive Director	(Appointed Chairman on 6 December 2017)
Julian Constable	Non-Executive Director	
David Groves	Non-Executive Director	
Russel Pillemer	Non-Executive Director	

Directors have been in office since the start of the financial year to the date of this report, unless stated otherwise.

INFORMATION ON DIRECTORS

During the year, the following persons held office as Director:

Francis Gooch - B.Bus, CPA
Independent, Chairman (appointed 6 December 2017), Non-Executive Director (appointed 5 June 2017)

Mr Gooch was appointed as a Non-Executive Director of the Company by the Board on 5 June 2017 and was elected by shareholders at the company's 2017 Annual General Meeting. On 6 December 2017 he was appointed chairman of directors. He is also a member of the Company's Audit, Risk and Compliance Committee and of the Independent Board Committee.

Mr Gooch has over 22 years' experience in the LIC industry after having been an executive of Milton Corporation Limited since 1996. He became Chief Executive in 1999 and was made the Managing Director in 2004. Mr Gooch retired from Milton on 31 July 2018.

Mr Gooch has also served as chairman of the LIC industry body, Australian Listed Investment Companies Association. Prior to joining Milton Corporation Limited Mr Gooch worked at Macquarie Bank Limited for 11 years.

Julian Constable - MAICD
Independent, Non-Executive Director (appointed 25 May 2010)

Mr Constable is a Non-Executive Director of the Company. He is also Chairman of the Company's Audit, Risk and Compliance Committee and of the Independent Board Committee.

Mr Constable is a Senior Investment Advisor at Bell Potter Securities Ltd, having worked in this capacity since 1998. In this role his key attributes are developing new business and building relationships with clients. He has worked in the stockbroking industry since 1984, in both trading and advisory areas, at firms including Pembroke Securities Ltd, Pring Dean McNall, Hambros Equities and Potter Warburg Dillon Read.

Mr Constable has been a Non-Executive Director of the ASX-listed HGL Ltd since August 2003 and is a member of its Remuneration Committee.

David Groves - BCom., MCom., CA, FAICD

Non-Independent, Chairman (resigned 6 December 2017) and Non-Executive Director (appointed 13 January 2017)

Mr Groves is a Non-Executive Director of the Company. He is also a member of the Company's Audit, Risk and Compliance Committee.

Mr Groves has 26 years' experience as a company director. Mr Groves is Chairman of Pyrolyx AG and Tasman Sea Salt Pty Ltd, is a Non-Executive Director of Pipers Brook Vineyard Pty Ltd. Mr Groves is a former director of EQT Holdings Ltd, Tassal Group Ltd, GrainCorp Ltd and a former executive with Macquarie Bank Limited and its antecedent, Hill Samuel Australia.

Mr Groves is also a Non-Executive Director of Pengana Capital Group Limited, Chairman of the Pengana Group Audit, Risk and Compliance Committee and a member of the Pengana Group Nomination and Remuneration Committee.

Mr Groves is a member of the Australian Institute of Chartered Accountants and a fellow of the Australian Institute of Company Directors.

Russel Pillemer - B.Com, CA

Non-Independent, Non-Executive Director (appointed 5 June 2017)

Mr Pillemer is a Non-Executive Director of the Company.

Mr Pillemer is also a Director and Chief Executive Officer of Pengana Capital Group Limited. Mr Pillemer co-founded Pengana in 2003 and has been its Chief Executive Officer since inception. Prior to founding Pengana, Mr 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. Mr Pillemer was previously Chairman 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.

COMPANY SECRETARY

Paula Ferrao - B. Bus

Company Secretary (appointed 2 June 2017)

Ms Ferrao is the Company Secretary of the Company.

Ms Ferrao is also an Executive of Pengana Capital Group Limited. Ms Ferrao was previously interim Chief Executive Officer of Hunter Hall International Limited from January 2017 until its merger with Pengana Holdings Pty Ltd on 1 June 2017. Prior to that she was Chief Financial Officer of Hunter Hall International Limited since 2010.

Ms Ferrao has 19 years' experience in the funds management industry with strong expertise in financial reporting and tax for corporate entities, listed investment companies, managed investment schemes and public offer superannuation funds and in all aspects of fund operations.

OPERATING AND FINANCIAL REVIEW

Company Overview and Principal Activities

Pengana International Equities Limited is a listed investment company that was incorporated on 22 December 2003 to invest in a portfolio of permitted investments. The Company's Investment Manager Pengana Investment Management Limited, is a wholly owned subsidiary of Pengana Capital Group Limited (PCG).

PENGANA
INTERNATIONAL
EQUITIES LIMITED

INVESTMENT PORTFOLIO

The Company's investment objective is to generate long-term consistent returns whilst reducing volatility and the risk of losing capital.

There are three broad measures by which a listed investment company's performance may be measured:

- Gross portfolio performance. This is the performance of the Company's investment portfolio and the measure most comparable to the benchmark, the MSCI World Total Return Index, Net Dividends, Reinvested in Australian Dollars ("MSCI World"). It is before management and performance fees, corporate expenses and tax; and adjusted for the impact of dividends paid and movements in the share capital. The gross portfolio performance for the financial year ended 30 June 2018 was 13.7%, while the MSCI World returned 15.3% over the same period;
- Net portfolio performance. This is the performance of the Company's investment portfolio after management and performance fees and corporate expenses and is a measure comparable to the performance disclosed by unlisted managed funds. It is before tax and adjusted for the impact of dividends paid and movements in the share capital. The net portfolio performance for the financial year ended 30 June 2018 was 11.9%; and
- Total shareholder return. This is the movement in the Company's share price over the period, adjusted for dividends paid and the market value of the bonus options at 30 June 2018. The total shareholder return for the financial year ended 30 June 2018 was 11.6%.

All measures of performance ignore the value of franking credits on dividends paid in the period.

OPERATING RESULTS

The Company's total investment income was $39.9 million for the financial year ended 30 June 2018, up 260% from the $24.9 million negative investment return posted for the financial year ended 30 June 2017.

Management fees at $4.1 million were significantly down on the $5.1 million due to lower than average gross net assets during the first half of the year in comparison to the first half of the prior financial year and also due to the reduction in management fee from 1.5% p.a. to 1.2% effective 1 December 2017. A performance fee of $315,231 crystallised as at 30 June 2018, following the reset of the performance fee high watermark to nil effective 1 December 2017. This accrual reflects a net portfolio out- performance of 0.68% for the period from 1 December 2017 to 30 June 2018. Corporate expenses for the year at $726,524 were significantly down in comparison to prior year $1,335,681.

This resulted in a profit after tax of $24.6 million for the financial year ended 30 June 2018, an increase of $47.5 million from a loss of $22.9 million for the year ended 30 June 2017.

DIVIDENDS

	2018 $'000	2017 $'000
Final fully franked dividend, franked at 27.5%, of 3.5 cents per share to be paid on 28 September 2018 not provided for in the attached financial reports (2017: final fully franked dividend, franked at 30%, of 3.5 cents)	8,662	8,547
Interim fully franked dividend, franked at 30%, of 3.5 cents per share paid on 30 April 2018 (2017: Interim fully franked dividend, franked at 30%, of 3.5 cents)	8,635	8,524
	17,297	**17,071**

On 14 August 2018 the Board declared a final fully franked dividend of 3.5 cents per share franked at 27.5%, in line with the Company's stated dividend policy. This brings the total fully franked dividend for the year to 30 June 2018 to 7.0 cents per share.

DIVIDEND POLICY

The Board is committed to paying a regular and growing stream of fully franked dividends to its shareholders, provided the Company has sufficient profit reserves and franking credits and it is within prudent business practices.

STRATEGY AND FUTURE OUTLOOK

The Company aims to meet its investment objective of generating long-term consistent returns whilst reducing volatility and the risk of losing capital, and to pay a regular and growing stream of fully franked dividends to our shareholders, provided the Company has sufficient profit reserves and franking credits and it is within prudent business practices.

The Board is continuously seeking to improve communication with shareholders, deploy value creating capital management strategies and being disciplined in managing the Company's expenses.

The Company's portfolio is primarily invested in equities and given the volatility in investment markets it is extremely difficult to forecast profit for the coming year. The Company provides weekly NTA announcements to the Australian Securities Exchange (ASX), and they can also be accessed via the website of the Company's Investment Manager: www.pengana.com

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

The transition to align the portfolio with the new investment objective was completed during September 2017.

The Company appointed BNP Paribas Securities Services as its Custodian and Fund Administrator effective 16 October 2017.

On 20 November 2017, at the Annual General Meeting, shareholders approved the change of the name of the Company to Pengana International Equities Limited. The ASX ticker code was subsequently changed to PIA on 15 December 2017.

On 12 December 2017, the Company issued 244,589,252 listed PIA options to eligible shareholders on the basis of 1 listed PIA option for every 1 ordinary share held on 28 November 2017. As at 30 June 2018 1,912,878 PIA options had been exercised and 242,676,374 remain on issue at an exercise price of $1.18.

Effective 1 December 2017, the management fee was reduced from 1.5% to 1.2% p.a. and the performance fee high watermark was reset to nil.

Frank Gooch was appointed independent Chairman, effective 6 December 2017.

The Company's Aggregated Turnover, as defined in the Treasury Laws Amendment (Enterprise Tax Plan) Bill 2017 for the year ended 30 June 2018 amounted to approximately $39m. The ATO considers the financial year 2017/18 Aggregated Turnover to be the best indicator of likely Aggregated Turnover for financial year 2018/19. As Aggregated Turnover for financial year 2017/18 was below $50m, the forecast tax rate for financial year 2018/19 is 27.5%, a reduction from the tax rate of 30% in financial year 2017/18. This forecast tax rate results in a franking rate of 27.5% for dividends paid during financial year 2018/2019.

Whilst the forecast tax rate and franking rate are 27.5%, the actual tax rate for financial year 2018/19 will be determined by the Aggregated Turnover for financial year 2018/19. In the event that this is greater than $50m the tax rate for financial year 2018/19 will be 30%.

The provision for deferred tax has been made at a rate of 27.5% for the financial year ended 30 June 2018. There were no other significant changes in the state of affairs during the reporting period.

EVENTS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

On 14 August 2018 the Board declared a final fully franked dividend of 3.5 cents per share franked at 27.5%, in line with the Company's stated dividend policy. This brings the total fully franked dividend for the year to 30 June 2018 to 7.0 cents per share.

The level of franking will depend on the number of options converted into shares prior to 21 September 2018, the dividend record date. If less than 215.4m options are exercised, the dividend will be fully franked. If more options are exercised the franked amount per share will reduce. Any change to the franking amount will be advised the business day following the record date.

The cash yield of this final dividend of 3.5 cents per share taken together with the interim fully franked dividend of 3.5 cents per share paid on 30 April 2018 is 5.88%, based on $1.19, the closing share price at 14 August 2018. Assuming this interim dividend is fully franked, the gross dividend yield is 8.26%.

PENGANA INTERNATIONAL EQUITIES LIMITED

The after tax NTA of the Company at 10 August 2018 was $304.2m, an increase of 1.1% or $3.4m from the $300.8m recorded at 30 June 2018.

26,600 options have been exercised since 30 June 2018 until 14 August 2018, the date of this report.

Other than the above, the Directors are not aware of any other matter or circumstance not otherwise dealt with in this financial report that has significantly or may significantly affect Company's operations, the results of those operations or the Company's state of affairs in future years.

REMUNERATION REPORT (AUDITED)

The Board presents the Remuneration Report for the Company for the year ended 30 June 2018, which forms part of the Directors' Report and has been prepared in accordance with the Corporations Act 2001 and the Corporations Regulations 2001.

1. REMUNERATION GOVERNANCE

The Company has no employees and so remuneration is limited to Directors' fees.

The Board is responsible for ensuring that the level of fees paid to the Directors is reasonable.

2017 Annual General Meeting

At the 2017 Annual General Meeting the Company received 49.58% of votes cast by poll against the Remuneration Report, causing a "first strike" to be recorded.

2. DETAILS OF KEY MANAGEMENT PERSONNEL

Key Management Personnel (KMP) for the year ended 30 June 2018 are those persons who are identified as having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any Non- Executive Director (NED) of the Company.

Names and positions held of Directors and Officers of the Company in office at any time during the financial year are:

Name	Title	Appointment date
Francis Gooch	Chairman and Non-Executive Director	Appointed Chairman on 6 December 2017
Julian Constable	Non-Executive Director	
David Groves	Non-Executive Director	
Russel Pillemer	Non-Executive Director	

The Company has no employees. All operational and administrative duties are performed by PCG, the parent company of the Investment Manager. No employees of PCG are remunerated by the Company.

Names and positions held of PCG personnel that the Company considers KMPs by virtue of their roles and responsibilities are:

Jordan Cvetanovski	Chief Investment Officer and Portfolio Manager at PCG
Steven Glass	Deputy Portfolio Manager and Analyst at PCG

Unless otherwise noted, all KMP held their positions for the whole of the year ended 30 June 2018.

3. REMUNERATION

a. Remuneration Policy

Directors are remunerated by way of fees and superannuation contributions.

Each year the fees are determined by the Board of Directors who take into account the responsibilities, qualifications and experience of the directors as well as the demands made on directors and the remuneration of Non-Executive Directors of comparable Australian companies.

Fees (including superannuation contributions):	2018 $	2017 $	Reduction %
Chairman	65,700	96,000	31.6
Director	43,800	60,000	27.0

b. Aggregate Fees Limit

The Aggregate Fee Limit available to directors of $250,000 was approved by shareholders in 2013.

c. Equity-based Remuneration

NEDs are remunerated by way of cash benefits. The Company currently has no intention to remunerate NEDs by any way other than cash benefits.

d. Directors Remuneration

The following table outlines the remuneration provided to NEDs for the years ended 30 June 2018 and 30 June 2017.

2018	Short-term benefits	Post-employment benefits	Total remuneration
Non-Executive Directors	**Directors' fees $**	**Superannuation $**	**Total $**
Francis Gooch	50,000	4,750	54,750
Julian Constable	40,000	3,800	43,800
David Groves	50,000	4,750	54,750
Russel Pillemer	–	–	–
	140,000	**13,300**	**153,300**

Non-Executive Directors' fees were reduced with effect from 1 July 2018, which had the effect of lowering total remuneration by $33,250 to $153,300.

Russel Pillemer, who is also Director and Chief Executive Officer of Pengana Capital Group Limited (ASX: PCG), PIA's Investment Manager, is not remunerated by PIA.

2017	Short-term benefits	Post-employment benefits	Total remuneration
Non-Executive Directors	**Directors' fees $**	**Superannuation $**	**Total $**
Francis Gooch	3,333	317	3,650
Julian Constable	54,795	5,205	60,000
David Groves	42,903	–	42,903
Russel Pillemer	–	–	–
Paul Jensen	80,000	–	80,000
Robert Millner	–	–	–
	181,031	**5,522**	**186,553**

e. Service Agreements

Remuneration and other terms of employment for the Independent Non-Executive Directors are formalised in service agreements with the Company.

Frank Gooch, Chairman, Independent Non-Executive Director and member of the Audit, Risk and Compliance Committee and of the Independent Board Committee

- Commenced on 5 June 2017
- No term of agreement has been set unless the Director is not re-elected by shareholders of the Company
- Annual salary, inclusive of superannuation, for the year ended 30 June 2018 of $54,750.

David Groves, Non-Independent Non-Executive Director and member of the Audit, Risk and Compliance Committee

- Commenced on 13 January 2017
- No term of agreement has been set unless the Director is not re-elected by shareholders of the Company
- Annual salary, inclusive of superannuation, for the year ended 30 June 2018 of $54,750.

Julian Constable, Independent Non-Executive Director, Chair of the Audit, Risk and Compliance Committee and of the Independent Board Committee

- Commenced on 25 May 2010
- No term of agreement has been set unless the Director is not re-elected by shareholders of the Company
- Annual salary, inclusive of superannuation, for the year ended 30 June 2018 of $43,800.

Russel Pillemer, Non-Independent Non-Executive Director

- Commenced on 5 June 2017.

Mr Pillemer is not remunerated by the Company.

End of Audited Remuneration Report

MEETING OF DIRECTORS

During the financial year, meetings of Directors (including committees) were held. Attendances were:

	Board Committee		Audit, Risk and Compliance Committee		Board-Sub Committee	
	Eligible	Attended	Eligible	Attended	Eligible	Attended
Francis Gooch	11	11	4	4	3	3
Julian Constable	11	11	4	4	1	1
David Groves	11	11	4	4	2	2
Russel Pillemer	11	11	–	–	1	1

The Independent Board Committee did not meet during the year ended 30 June 2018.

DIRECTORS SHARES AND OPTIONS HOLDINGS

Please see below details of Directors shares and options holdings as at 30 June 2018.

Directors Shareholding	Held at 1 July 2017	Purchases	Sales	Other	Held at 30 June 2018
Francis Gooch	25,000	–	–	–	25,000
Julian Constable	300,000	–	–	–	300,000
David Groves	40,000	–	–	12,446	52,446
Russel Pillemer	–	–	–	–	–

Directors Options Holding	Held at 1 July 2017	Issued	Sold	Other	Issued and held at 30 June 2018
Francis Gooch	–	25,000	–	–	25,000
Julian Constable	–	300,000	–	–	300,000
David Groves	–	40,000	–	12,445	52,445
Russel Pillemer	–	–	–	–	–

ENVIRONMENTAL ISSUES

The Company's operations are not subject to any environmental regulation under the law of the Commonwealth and State.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any such proceedings during the year.

ROUNDING OF AMOUNTS

The Company is of a kind referred to in the Australian Securities and Investments Commission (ASIC) Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, relating to the 'rounding off' of amounts in the Directors' report. Amounts in the Directors' report have been rounded off in accordance with that instrument to the nearest thousand dollars, or in certain areas, to the nearest dollar (unless stated otherwise).

PENGANA
INTERNATIONAL
EQUITIES LIMITED

INDEMNIFYING AND INSURANCE OF DIRECTORS AND OFFICERS

The Company insures each of the Directors and Officers in office against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of Directors and Officers of the Company, other than conduct involving a wilful breach of duty in relation to the Company. Details of the amount of premium paid in respect of insurance policies are not disclosed as such disclosure is prohibited under the terms of the contract.

INDEMNIFICATION OF AUDITORS

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

AUDITOR

Ernst & Young was appointed as the auditor on 16 November 2016 in accordance with section 327 of the Corporations Act 2001.

NON-AUDIT SERVICES

Ernst & Young received or are due to receive $7,000 for the provision of non-audit services.

The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the Auditor's Independence Declaration as required under s307C of the Corporations Act 2001 is set out on the following page and forms part of this report.

Signed in accordance with a resolution of the Board of Directors

F Gooch

Francis Gooch
Chairman
Sydney
14 August 2018

AUDITOR'S INDEPENDENCE DECLARATION

Building a better working world

Ernst & Young
200 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
ey.com/au

Auditor's Independence Declaration to the Directors of Pengana International Equities Limited

As lead auditor for the audit of Pengana International Equities Limited (formerly Hunter Hall Global Value Limited) for the financial year ended 30 June 2018, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

Ernst & Young

Ernst & Young

Graeme McKenzie
Partner
14 August 2018

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

PENGANA INTERNATIONAL EQUITIES LIMITED

For the year ended:	Note	30 June 2018 $'000	30 June 2017 $'000
Revenue			
Interest received		369	358
Dividend received		5,093	3,145
Change in fair value of investments	2	34,470	(28,441)
Other operating income		2	27
Total income/(loss) from investments		**39,934**	**(24,911)**
Management fees	3	(4,053)	(5,051)
Performance fees	3	(315)	–
		(4,368)	**(5,051)**
Directors' fees		(153)	(187)
Audit fees	3	(76)	(73)
Brokerage expenses		(1,279)	(1,732)
Disbursements, mailing and printing		(19)	(29)
Share registry fees		(134)	(367)
ASX listing fees		(80)	(84)
Legal and professional expenses		(16)	(339)
Custody and administration fees		(118)	(136)
Tax fees		(18)	(11)
Other expenses		(113)	(110)
		(2,006)	**(3,068)**
Total expenses		**(6,374)**	**(8,119)**
Profit/(loss) before income tax		**33,560**	**(33,030)**
Income tax (expense)/ benefit	4	(8,952)	10,153
Net profit/(loss) after income tax		**24,608**	**(22,877)**
Other comprehensive income/(loss) for the year, net of tax		–	–
Total comprehensive income/(loss) for the year		**24,608**	**(22,877)**
Basic earnings per share (cents per share)	5	10.04	(9.40)
Diluted earnings per share (cents per share)	5	10.02	(9.40)

The statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

STATEMENT OF FINANCIAL POSITION

As at:	Note	30 June 2018 $'000	30 June 2017 $'000
Assets			
Cash and cash equivalents	6	41,230	26,104
Trade and other receivables	7	2,339	9,571
Financial assets	8	269,218	254,577
Deferred tax assets	4	258	855
Total assets		**313,045**	**291,107**
Liabilities			
Trade and other payables	10	7,095	1,167
Financial liabilities	9	1,103	–
Deferred tax liabilities	4	4,009	–
Total liabilities		**12,207**	**1,167**
Net assets		**300,838**	**289,940**
Equity			
Issued capital	11	308,278	304,806
Profit reserve	13	106,473	99,047
Retained losses	12	(113,913)	(113,913)
Total equity attributable to shareholders of the Company		**300,838**	**289,940**

The statement of financial position should be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY

For the year ended:	Note	Issued capital $'000	Profit reserve $'000	Retained earnings/ (losses) $'000	Total $'000
Balance at 1 July 2016		**303,220**	**103,497**	**(78,457)**	**328,260**
Loss for the year		–	–	(22,877)	(22,877)
Transfer to profit reserve		–	12,579	(12,579)	–
Transactions with shareholders in their capacity as owners:					
Dividend reinvestment plan issues	11	1,586	–	–	1,586
Dividends paid	14	–	(17,029)	–	(17,029)
Balance at 30 June 2017		**304,806**	**99,047**	**(113,913)**	**289,940**
Balance as at 1 July 2017		**304,806**	**99,047**	**(113,913)**	**289,940**
Profit for the year		–	–	24,608	24,608
Transfer to profit reserve		–	24,608	(24,608)	–
Transactions with shareholders in their capacity as owners:					
Dividend reinvestment plan issues	11	1,517	–	–	1,517
Options exercised		2,257	–	–	2,257
Costs incurred on option issue		(302)	–	–	(302)
Dividends paid	14	–	(17,182)	–	(17,182)
Balance at 30 June 2018		**308,278**	**106,473**	**(113,913)**	**300,838**

The above statement of changes in equity should be read in conjunction with the accompanying notes.

STATEMENT OF CASH FLOWS

For the year ended:	Note	30 June 2018 $'000	30 June 2017 $'000
Cash flows from operating activities			
Proceeds from sale of investments		399,579	444,455
Payments for purchases of investments		(364,944)	(453,003)
Brokerage expenses		(1,279)	(1,732)
Dividends received		4,980	3,124
Interest received		356	361
Other income received		1	27
Management fees paid		(4,125)	(5,124)
Income tax paid		(5,277)	(13,884)
Payment to suppliers		(484)	(1,334)
Net cash inflow/(outflow) from operating activities	**15**	**28,807**	**(27,110)**
Cash flows from financing activities			
Payments for costs incurred on option issue		(302)	–
Proceeds from exercise of options		2,257	–
Dividends paid	14	(15,665)	(15,443)
Net cash outflow from financing activities		**(13,710)**	**(15,443)**
Net increase/(decrease) in cash and cash equivalents		15,097	(42,553)
Cash and cash equivalents at the beginning of the year		26,104	70,144
Translation of foreign cash held		29	(1,487)
Cash and cash equivalents at end of year	**6**	**41,230**	**26,104**

The above statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

PENGANA
INTERNATIONAL
EQUITIES LIMITED

NOTE 1: CORPORATE INFORMATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Pengana International Equities Limited ("the Company") formerly Hunter Hall Global Value Limited, for the year ended 30 June 2018 were authorised for issue in accordance with a resolution of the Directors on 14 August 2018.

Pengana International Equities Limited is a for-profit company limited by shares incorporated and domiciled in Australia. The Company's principal place of business is Level 12, 167 Macquarie Street, Sydney, NSW 2000 Australia.

Further information on the nature of the operations and principal activities of the Company is provided in the Directors' report.

Basis of preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards (AASB) and other authoritative pronouncements of the Australian Accounting Standards Board.

The financial report has been prepared on a historical cost basis unless stated otherwise and is presented in Australian dollars. Investments in financial assets and liabilities are recorded at fair value through profit and loss.

The statement of financial position is presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and are not distinguished between current and non-current.

Compliance with International Financial Reporting Standards

The financial report also complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

Summary of significant accounting policies

The following is a summary of the material accounting policies adopted by the Company in the preparation of the financial report. They have been consistently applied unless otherwise stated.

a. Revenue and other income

Dividend income is recognised on the date shares are quoted ex-dividend. Interest income is recognised on an accruals basis. All revenue is stated net of the amount of Goods and Services Tax (GST).

b. Cash and cash equivalents

Cash and cash equivalents include cash on hand and call deposits with banks or financial institutions.

c. Fair values of financial assets and liabilities

Recognition and measurement

Financial assets and liabilities are recognised when the Company becomes a party to the binding contractual provisions to the instrument. For financial assets this is equivalent to the date that the Company commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted).

Financial assets and liabilities are valued at fair value. Financial instruments are classified into the following categories and fair values of financial instruments are determined on the following basis:

i. Investments

Financial assets and liabilities held at fair value through profit and loss are measured initially at fair value excluding any transaction costs that are directly attributable to the acquisition of the financial asset or liability. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the Statement of Profit or loss and Other Comprehensive Income. After initial recognition, investments are classified as "fair value through profit or loss". Gains and losses on investments are recognised in the Statement of Profit or loss and Other Comprehensive Income.

Last market close price is used for all investments quoted in an active market. Where this price falls outside the bid-ask spread, discretion is used as to whether the most appropriate price is the bid price or last market close price.

De-recognition

Investments are de-recognised when the right to receive cashflows from the investments has expired or the Company has transferred substantially all risks and rewards of ownership.

c. Fair values of financial assets and liabilities (continued)

ii. Derivative financial instruments

Forward foreign exchange hedging contracts

The Company only uses forward foreign exchange hedging contracts to hedge the risks associated with foreign currency fluctuations. The Company has established foreign exchange dealing lines with major banks. Forward foreign exchange hedging contracts are marked to market daily and are disclosed as financial assets or financial liabilities as the valuation requires.

The fair value of forward foreign exchange hedging contracts is calculated by reference to current forward exchange rates for contracts with the same maturity profiles.

Gains and losses arising from changes in fair value are taken directly to the Statement of Profit or loss and Other Comprehensive Income.

Exchange traded options

Exchange traded options are initially recognised at cost, being the fair value of the consideration given excluding brokerage and other acquisition charges associated with the exchange traded index options. Brokerage and other acquisition charges associated with the exchange traded index options are expensed in the Statement of Profit or loss and Other Comprehensive Income. After initial recognition, exchange traded options have been classified as “fair value through profit or loss”. Gains and losses on exchange traded options are recognised in the Statement of Profit or loss and Other Comprehensive Income.

iii. Trade and other receivables

Trade and other receivables are initially recognised at fair value. They are subsequently stated at amortised cost.

iv. Trade and other payables

Trade and other payables are initially recognised at fair value. They are subsequently stated at amortised cost.

d. Foreign currency translation

Foreign currency transactions are translated into Australian Dollars (AUD) at the functional currency spot rates of exchange at the date of the transaction.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of foreign assets and liabilities at year end exchange rates are recognised in the Statement of Profit or loss and Other Comprehensive Income.

Translation differences on monetary assets and liabilities, forward foreign exchange hedging contracts, exchange traded options and investments are reported as part of the change of value of investments on the Statement of Profit or loss and Other Comprehensive Income. All other foreign exchange gains and losses are presented in the Statement of Profit or loss and Other Comprehensive Income within revenue.

Assets and liabilities denominated in a foreign currency are translated at the functional currency spot rates of exchange at reporting date.

e. Income Tax

The income tax expense or credit for the period is the tax payable on the current period’s taxable income based on the applicable income tax adjusted for changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period.

Deferred tax is provided for using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

The Company's Aggregated Turnover, as defined in the Treasury Laws Amendment (Enterprise Tax Plan) Bill 2017 for the year ended 30 June 2018 amounted to approximately $39m. The ATO considers the financial year 2017/18 Aggregated Turnover to be the best indicator of likely Aggregated Turnover for financial year 2018/19. As Aggregated Turnover for financial year 2017/18 was below $50m, the forecast tax rate for financial year 2018/19 is 27.5%, a reduction from the tax rate of 30% in financial year 2017/18. This forecast tax rate results in a franking rate of 27.5% for dividends paid during financial year 2018/2019.

Whilst the forecast tax rate and franking rate are 27.5%, the actual tax rate for financial year 2018/19 will be determined by the Aggregated Turnover for financial year 2018/19. In the event that this is greater than $50m the tax rate for financial year 2018/19 will be 30%.

The provision for deferred tax has been made at a rate of 27.5% for the financial year ended 30 June 2018.

f. Goods and Services Tax

Revenue, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or is expensed. Receivables and payables in the Statement of Financial Position are shown inclusive of GST. Cash flows are presented in the Statement of Cash Flows on a gross basis, and for the GST component of investing and financing activities, which are disclosed as operating cash flows.

g. Profit Reserve

The profit reserve consists of amounts transferred during the year from retained losses that are preserved for future dividend payments.

h. Critical accounting estimates and judgements

The Directors evaluate estimates and judgements incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Company. For the majority of the financial instruments held by the Company, quoted market prices are readily available.

i. Rounding of amounts

Unless otherwise shown in the financial statements, amounts have been rounded to the nearest thousand dollars and are shown in A$'000. Pengana International Equities Limited is a company of the kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191.

j. New and amended standards adopted by the Company

AASB 2016-1 Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses

This standard amends AASB 112 Income Taxes (July 2004) and AASB 112 Income Taxes (August 2015) to clarify the requirements on recognition of deferred tax assets for unrealised losses on debt instruments measured at fair value.

AASB 2016-2 Amendments to Australian Accounting Standard – Disclosure Initiative: Amendments to AASB 107

This standard amends AASB 107 Statement of Cash Flows (August 2015) to require entities preparing financial statements in accordance with Tier 1 reporting requirements to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The relevant information is provided in Note 11 and Note 15.

There are no other new standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning 1 July 2017 that have a material impact on the Company.

k. New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2018 reporting period and have not been early adopted by the Company. The Directors' assessment of the impact of these new standards (to the extent relevant to the Company) and interpretations is set out below:

AASB 9 Financial Instruments (and applicable amendments) (effective for the Company from 1 July 2018)

AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities. It has now also introduced revised rules around hedge accounting and impairment. The standard is not applicable until 1 July 2018 but is available for early adoption. The Directors do not expect this to have a significant impact on the recognition and measurement of the Company's financial instruments as they are carried at fair value through profit or loss. The derecognition rules have not changed from the previous requirements, and the Company does not apply hedge accounting. AASB 9 introduces a new impairment model. However, as the Company's investments are held at fair value through profit or loss, the change in impairment rules will not impact the Company.

AASB 15 Revenue from Contracts with Customers (effective for the Company from 1 July 2018)

AASB 15 will replace AASB 118 Revenue which covers contracts for goods and services and AASB 111 Construction Contracts which covers construction contracts. AASB 15 is based on the principle that revenue is recognised when control of a good or service transfers to a customer, so the notion of control replaces the existing notion of risks and rewards.

The Company's main sources of income are interest, dividends and distributions and gains on financial instruments held at fair value. All of these are outside the scope of the new revenue standard. As a consequence, the Directors do not expect the adoption of AASB 15 to have a significant impact on the Company's accounting policies or the amounts recognised in the financial statements.

There are no other standards that are not yet effective and that are expected to have a material impact on the Company in the current or future reporting periods and on foreseeable future transactions.

l. Comparative figures

Comparative information has been reclassified where required for consistency with current year's presentation.

NOTE 2: CHANGES IN FAIR VALUE OF INVESTMENTS

	2018 $'000	2017 $'000
Change in the fair value of listed equities	37,023	(26,963)
Change in the fair value of derivative financial instruments	(2,582)	(222)
Changes in the fair value of foreign cash held	29	(1,256)
Total changes in the fair value of investments	**34,470**	**(28,441)**

PENGANA INTERNATIONAL EQUITIES LIMITED

NOTE 3: EXPENSES

a. Management Fees

In accordance with the Investment Management Agreement between the Company and Pengana Investment Management Limited (the Investment Manager), the Investment Manager is entitled to a management fee based on the gross value of the investment portfolio, payable on a monthly basis.

Effective 1 December 2017, the management fee was reduced from 1.5% to 1.2% p.a.

The amounts paid and payable to the Investment Manager in accordance with the Investment Management Agreement were:

	2018 $'000	2017 $'000
Management fees	**4,053**	**5,051**

b. Performance Fees

In accordance with the Investment Management Agreement between the Company and Pengana Investment Management Limited (the Investment Manager), the Investment Manager is entitled to a performance fee of 15% of any outperformance when the investment return of the portfolio outperforms the MSCI World Total Return Index, Net Dividends Reinvested in A$. The method of calculating the fee is detailed in the Investment Management Agreement.

Effective 1 December 2017, the performance fee high watermark was reset to nil.

As at 30 June 2018, a performance fee of $315,231 was crystallised and payable to the Investment Manager.

The amounts paid and payable to the Investment Manager in accordance with the Investment Management Agreement were:

Performance fee	**315**	**–**

c. Auditor's Remuneration

During the year the following fees were paid or payable by the Company for services provided by the auditor of the Company, Ernst & Young.

Ernst & Young		
Audit and assurance services		
Audit and review of financial statements	69	65
Other services	7	8
Total remuneration for audit and other assurance services	**76**	**73**
Non-assurance services		
Tax compliance services	7	11
Total remuneration for taxation services	**7**	**11**
Total remuneration of Ernst & Young	**83**	**84**

NOTE 4: INCOME TAX

	2018 $'000	2017 $'000
a. Income tax (expense)/benefit attributable for the year differs from the prima facie amount payable on the operating profit. The difference is reconciled as follows:		
Profit/(loss) before income tax expense	**33,560**	**(33,030)**
Prima facie income tax (expense)/benefit on net profit at 30%	(10,068)	9,909
Adjustments to prior periods	(133)	(413)
Adjustment for the restating of the deferred tax balances at 27.5%	341	–
Foreign withholding tax	814	170
Franking credits	94	487
	(8,952)	**10,153**
b. The major components of income tax (expense)/benefit are:		
Current income tax benefit/(expense)	(4,208)	(8,689)
Current tax adjustment for prior periods	(138)	(413)
Deferred income tax	(4,606)	19,255
	(8,952)	**10,153**
c. Deferred tax liabilities relate to the following:		
Unrealised gains on investments	(3,977)	–
Other temporary differences	(32)	–
	(4,009)	**–**
d. Deferred tax assets relate to the following:		
Unrealised losses on investments	–	465
Costs associated with the issue of shares	247	166
Other temporary differences	11	224
	258	**855**

The Company's Aggregated Turnover, as defined in the Treasury Laws Amendment (Enterprise Tax Plan) Bill 2017 for the year ended 30 June 2018 amounted to approximately $39m. The ATO considers the financial year 2017/18 Aggregated Turnover to be the best indicator of likely Aggregated Turnover for financial year 2018/19. As Aggregated Turnover for financial year 2017/18 was below $50m, the forecast tax rate for financial year 2018/19 is 27.5%, a reduction from the tax rate of 30% in financial year 2017/18. This forecast tax rate results in a franking rate of 27.5% for dividends paid during financial year 2018/2019.

Whilst the forecast tax rate and franking rate are 27.5%, the actual tax rate for financial year 2018/19 will be determined by the Aggregated Turnover for financial year 2018/19. In the event that this is greater than $50m the tax rate for financial year 2018/19 will be 30%.

PENGANA
INTERNATIONAL
EQUITIES LIMITED

NOTE 5: EARNINGS PER SHARE (EPS)

	2018 $'000	2017 $'000
Net profit/ (loss) after tax used in the calculation of basic and diluted EPS	24,608	(22,877)
	No. Shares	**No. Shares**
Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS	245,197,921	243,522,203
Weighted average number of ordinary shares outstanding during the year used in calculation of diluted EPS	245,469,454	–

The basic and diluted earnings per share have been calculated using the profit attributable to the shareholders of the Company as the numerator.

The options exercised during the period have been included in the determination of diluted earnings per share to the extent they are dilutive.

NOTE 6: CASH AND CASH EQUIVALENTS

	2018 $'000	2017 $'000
Cash at bank	25,690	26,104
Short-term deposits	15,540	–
	41,230	**26,104**

NOTE 7: TRADE AND OTHER RECEIVABLES

Dividends receivable	157	127
Interest receivable	21	8
Outstanding investment settlements receivable	894	8,540
GST receivable	80	99
Prepayments	15	4
Current tax receivable	1,069	793
Other receivables	20	–
Withholding tax reclaims receivable	83	–
	2,339	**9,571**

There are no past due or impaired receivables at reporting date. All trade receivables are expected to be received within 12 months of the reporting date.

NOTE 8: FINANCIAL ASSETS

Investments held at fair value	267,537	253,739
Mark to market on forward foreign exchange hedging contracts	311	–
Mark to market on options	1,370	838
	269,218	**254,577**

All investments held at 30 June 2018 were listed on recognised exchanges.

NOTE 9: FINANCIAL LIABILITIES

	2018 $'000	2017 $'000
Mark to market on forward foreign exchange hedging contracts	1,103	–
	1,103	**–**

NOTE 10: TRADE AND OTHER PAYABLES

Management fees payable	302	374
Outstanding investment settlements payable	6,377	652
Performance fees payable	315	–
Reimbursable expenses	13	23
Other expenses payable	88	118
	7,095	**1,167**

All trade payables are expected to be settled within 12 months of the reporting date.

NOTE 11: ISSUED CAPITAL

	2018 No. shares	2017 No. shares
Issued ordinary shares at the beginning of the reporting period	**244,204,945**	**242,967,991**
Shares issued on options exercised	1,912,878	–
Dividends reinvested (DRP)	1,330,799	1,236,954
Issued ordinary shares at reporting date	**247,448,622**	**244,204,945**

	2018 $'000	2017 $'000
Issued ordinary shares at cost at the beginning of the reporting period	**304,806**	**303,220**
Options exercised net of expense incurred on option issue	1,955	–
Dividends reinvested (DRP)	1,517	1,586
Issued ordinary shares at cost at reporting date	**308,278**	**304,806**

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote. A reconciliation of the number of ordinary shares outstanding is shown in the table above.

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Capital risk management

The Directors manage the Company's capital by regularly ensuring that the Company employs its capital in the most efficient manner. The Directors believe that shareholder value is maximised through effective management of dividends distributed to shareholders, share buy-backs and options issue. These capital management initiatives will be used when deemed appropriate by the Directors. To achieve this, the Directors monitor the weekly and month end net tangible asset results, investment performance, the Company's expenses and share price movements.

For the year ended 30 June 2018, the Company paid dividends of $17,181,947 (2017: $17,029,368).

The capital structure of the Company consists of cash and cash equivalents and equity attributable to equity holders, comprising issued capital, reserves and retained earnings as disclosed in the Statement of Changes of Equity.

The Company is not subject to externally imposed capital requirements.

Option Issue

On 12 December 2017, the Company issued 244,589,252 listed PIA options to eligible shareholders on the basis of 1 listed PIA option for every 1 ordinary share held on 28 November 2017. As at 30 June 2018 1,912,878 PIA options had been exercised and 242,676,374 remain on issue at an exercise price of $1.18.

NOTE 12: RETAINED LOSSES

	2018 $'000	2017 $'000
Balance at the beginning of the year	(113,913)	(78,457)
Current year profit/(loss)	24,608	(22,877)
Transfer to profit reserve	(24,608)	(12,579)
Balance at the end of the year	**(113,913)**	**(113,913)**

NOTE 13: PROFIT RESERVE

	2018 $'000	2017 $'000
Balance at the beginning of the year	99,047	103,497
Transfer from retained earnings/(losses)	24,608	12,579
Final fully franked dividend, franked at 30%, of 3.5 cents paid 6 October 2017 (2017: 3.5 cents, franked at 30%)	(8,547)	(8,505)
Interim fully franked dividend, franked at 30%, of 3.5 cents paid 30 April 2018 (2017: 3.5 cents, franked at 30%)	(8,635)	(8,524)
Balance at the end of the year	**106,473**	**99,047**

The profit reserve consists of declared profits, available for the payment of future dividends.

NOTE 14: DIVIDENDS

	2018 $'000	2017 $'000
a. Dividends paid		
Final fully franked dividend, franked at 30%, of 3.5 cents paid 6 October 2017 (2017: 3.5 cents, franked at 30%)	8,547	8,505
Interim fully franked dividend, franked at 30%, of 3.5 cents paid 30 April 2018 (2017: 3.5 cents, franked at 30%)	8,635	8,524
	17,182	**17,029**
b. Dividend reinvestment plan		
Final fully franked dividend, franked at 30%, of 3.5 cents paid 6 October 2017 (2017: 3.5 cents, franked at 30%, reinvestment price: $1.39)	(759)	(792)
Interim fully franked dividend, franked at 30%, of 3.5 cents paid 30 April 2018 (2017: 3.5 cents, franked at 30%, reinvestment price $1.19)	(758)	(794)
	(1,517)	**(1,586)**
Net dividends paid in cash	**15,665**	**15,443**
c. Franking account		
Balance at the beginning of the year	8,782	1,500
Franking credits on dividends received	106	696
Franking credits from tax paid	4,621	13,884
Payment of interim fully franked dividend	(3,702)	(3,653)
Prior year final fully franked dividend	(3,663)	(3,645)
Franking account balance at year end	**6,144**	**8,782**
Payment of declared fully franked dividend	(3,285)	(3,663)
Franking account balance post payment of final dividend	**2,859**	**5,119**

On 14 August 2018 the Board declared a final fully franked dividend of 3.5 cents per share franked at 27.5%, in line with the Company's stated dividend policy. This brings the total fully franked dividend for the year to 30 June 2018 to 7.0 cents per share.

As at 30 June 2018, the $2.859m franking account balance post payment of final dividend is equivalent to a 2.70 cents per share fully franked dividend.

The level of franking will depend on the number of options converted into shares prior to 21 September 2018, the dividend record date. If less than 215.4m options are exercised, the dividend will be fully franked. If more options are exercised the franked amount per share will reduce. Any change to the franking amount will be advised the business day following the record date.

The Company's ability to continue to pay franked dividends is dependent upon the receipt of franked dividends from investments and the payment of tax.

The Company's Aggregated Turnover, as defined in the Treasury Laws Amendment (Enterprise Tax Plan) Bill 2017 for the year ended 30 June 2018 amounted to approximately $39m. The ATO considers the financial year 2017/18 Aggregated Turnover to be the best indicator of likely Aggregated Turnover for financial year 2018/19. As Aggregated Turnover for financial year 2017/18 was below $50m, the forecast tax rate for financial year 2018/19 is 27.5%, a reduction from the tax rate of 30% in financial year 2017/18. This forecast tax rate results in a franking rate of 27.5% for dividends paid during financial year 2018/2019.

Whilst the forecast tax rate and franking rate are 27.5%, the actual tax rate for financial year 2018/19 will be determined by the Aggregated Turnover for financial year 2018/19. In the event that this is greater than $50m the tax rate for financial year 2018/19 will be 30%.

NOTE 15: CASH FLOW INFORMATION

	2018 $'000	2017 $'000
a. Reconciliation of net cash flow from operating activities to net (loss)/profit after income tax:		
Net profit/(loss) after income tax	24,608	(22,877)
Change in fair value of investments	(34,470)	28,441
Proceeds from sale of investments	399,579	444,455
Payments for purchase of investments	(364,944)	(453,003)
Change in prepayments	(11)	28
Change in other receivables	(127)	(3)
Change in other payables	202	(114)
Net change in deferred tax assets/(deferred tax liabilities)	4,606	(19,255)
Change in income tax receivables	(276)	(793)
Change in income tax payable	–	(3,989)
Reinvested dividend income	(360)	–
Net cash inflow/(outflow) from operating activities	**28,807**	**(27,110)**
b. Non-cash financing activities		
Issue of shares under the dividend reinvestment plan (DRP)	1,517	1,586
	1,517	**1,586**

NOTE 16: FINANCIAL RISK MANAGEMENT

The Company holds the following financial instruments:

	2018 $'000	2017 $'000
Financial assets		
Cash and cash equivalents	25,690	26,104
Short-term deposits	15,540	–
Trade and other receivables	2,339	9,571
Investments at fair value	269,218	254,577
	312,787	**290,252**
Financial liabilities		
Trade and other payables	7,095	1,167
Investments at fair value	1,103	–
	8,198	**1,167**

From time to time, forward foreign exchange hedging contracts are used by the Company for risk management purposes. There is no gearing through the use of derivatives.

Financial risk exposures and management

The main risks the Company is exposed to through its financial instruments are market risk and credit risk.

a. Market risk

i. Price risk

The Company is exposed to equity securities price risk arising from investments and exchange traded index options held by the Company and classified on the Statement of Financial Position as fair value through profit or loss of $269.2m (2017: $254.6m).

At reporting date, if the equity prices had been 10% lower/higher, profit or loss before income tax of the Company would have decreased/increased by $26.9m (2017:$25.4m). The analysis is performed on the same basis as for 2017.

The following investments constitute 5% or more of the Company's equity portfolio:

Company	Market value $'000	%	Business description
2018			
Wacker Chemie AG	14,173	5.3	Materials
2017			
IAC InterActive Corp	14,695	5.8	Internet Services

ii. Foreign exchange risk

As at 30 June 2018 the portfolio (net assets excluding net tax liabilities) was invested 85.97% in International Equities (2017: 82.8%), nil in Australian Equities (2017: 5.7%) and 0.37% in foreign cash held predominantly in Swedish Krona (2017: 11.5% in foreign cash held predominantly in USD). The portfolio had an exposure to foreign cash and investments of A$270m (2017: A$263m), with 0.8m (2017: nil) of the foreign equity exposure hedged back into Australian Dollars by forward foreign exchange hedging contracts.

The Company manages Foreign Exchange risk on Trade payables and Trade receivables by having an auto foreign exchange sweep facility with the Company's custodian BNP Paribas Securities Services (Fitch Credit Rating: A+), whereby trade settlements and payables are converted to Australian Dollar at a pre-determined exchange rate on settlement date.

PENGANA INTERNATIONAL EQUITIES LIMITED

ii. Foreign exchange risk (continued)

The use of forward foreign exchange hedging contracts resulted in a realised loss of $1.1m in the year to 30 June 2018 (2017: loss of $0.3m) and an unrealised gain of $1.4m (2017: loss of $0.5m).

At 30 June 2018 the mark to market on forward foreign exchange hedging contracts was $0.8m (2017: nil).

The Company is an investor in foreign currency assets and benefits from any weakening in the Australian Dollar against those currencies to which it is exposed. The accounting policy in regard to forward foreign exchange hedging contracts and exchange traded index options is detailed in Note 1.

Sensitivity analysis

At reporting date a 10% strengthening/weakening of the Australian Dollar at 30 June 2018 would have decreased/increased profit or loss before income tax by $26.4m (2017: $27.2m). The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis as for 2017.

The Company's total net exposure to fluctuations in foreign currency exchange rates at the reporting date was as follows:

2018 Assets (AUD)	Cash $'000	Investments $'000	Options $'000	Trade and other receivables $'000	Tax asset/ liability $'000	Total $'000
Australian Dollar	40,063	–	–	1,289	258	41,610
Euro	–	58,138	–	–	–	58,138
British Pound	–	25,596	–	–	–	25,596
United States Dollar	(8)	119,076	–	86	–	119,154
Danish Krone	–	6,506	–	–	–	6,506
Hong Kong Dollar	7	24,283	–	70	–	24,360
Indian Rupee	1	8,525	–	–	–	8,526
Mexican Peso	7	1,658	–	894	–	2,559
Norwegian Kroner	–	5,061	–	–	–	5,061
Swedish Krona	1,160	20,375	–	–	–	21,535
	41,230	**269,218**	**–**	**2,339**	**258**	**313,045**
Liabilities (AUD)						
Australian Dollar	–	–	–	719	4,009	4,728
Euro	–	–	–	889	–	889
British Pound	–	70	–	1	–	71
United States Dollar	–	1,029	–	937	–	1,966
Hong Kong Dollar	–	4	–	1,778	–	1,782
Indian Rupee	–	–	–	466	–	466
Mexican Peso	–	–	–	3	–	3
Norwegian Kroner	–	–	–	146	–	146
	–	–	–	2,156	–	2,156
	–	**1,103**	**–**	**7,095**	**4,009**	**12,207**

a. Market risk (continued)

ii. Foreign exchange risk (continued)

2017 Assets (AUD)	Cash $'000	Investments $'000	Options $'000	Trade and other receivables $'000	Tax asset/ liability $'000	Total $'000
Australian Dollar	10,600	6,253	–	905	855	18,613
Euro	–	59,209	–	–	–	59,209
British Pound	–	28,063	–	108	–	28,171
Hong Kong Dollar	–	3,020	–	–	–	3,020
Norwegian Kroner	–	3,374	–	37	–	3,411
United States Dollar	15,504	125,513	838	8,521	–	150,376
Swedish Krona	–	10,221	–	–	–	10,221
Mexican Peso	–	461	–	–	–	461
Danish Krone	–	8,003	–	–	–	8,003
Brazilian Real	–	4,377	–	–	–	4,377
Swiss Franc	–	5,245	–	–	–	5,245
	26,104	**253,739**	**838**	**9,571**	**855**	**291,107**
Liabilities (AUD)						
Australian Dollar	–	–	–	525	–	525
United States Dollar	–	–	–	176	–	176
Mexican Peso	–	–	–	466	–	466
	–	**–**	**–**	**1,167**	**–**	**1,167**

iii. Interest rate risk

The main interest rate risk for the Company arises from its cash holdings. The Company's exposure to interest rate risk is immaterial.

Cash and cash equivalents	2018 $'000	2017 $'000
Cash balance subject to floating interest rate	25,690	26,104
	%	**%**
Weighted average effective interest rate	1.43%	0.76%

Sensitivity analysis

At reporting date, if the interest rates had been 0.25% lower or higher profit or loss before income taxes of the Company would have (decreased)/increased by $0.6m (2017: $0.1m).

b. Credit risk

Credit risk principally arises from cash deposits, forward foreign exchange hedging contracts, exchange traded index options held with banks and financial institutions, as well as outstanding receivables.

The Company's major credit risk arises from assets and cash held with the custodian, BNP Paribas, cash on deposit with National Australia Bank and forward foreign exchange hedging contracts with UBS AG London, Westpac Banking Corporation and ANZ. The Company also has minimal exposure through outstanding settlements with brokers.

The Company manages credit risk associated with financial assets by only trading with reputable brokers and via established securities exchanges. At reporting date, the credit ratings assigned by Fitch were as follows; UBS AG London - A+, Westpac Banking Corporation - AA- and ANZ - AA-.

c. Liquidity risk

Based on an assumption of trading 10% of the trailing three month daily volume 99.6% of the portfolio could be realised in one month (2017: 94.8%) and 99.9% of the portfolio in six months (2017: 95.9%).

Maturities of financial liabilities

Financial liabilities held by the Company include management fees payable to the Investment Manager, unsettled trades and other payables. The below table shows the maturities of financial liabilities held by the Company. Forward foreign exchange hedging contracts are also included below where any liability existed at reporting date. Forward foreign exchange hedging contracts are marked to market daily and are disclosed as financial assets or financial liabilities as the valuation requires. Further information on these instruments is in Note 16(a).

2018 Financial liabilities	Less than 1month $'000	1 to 3 months $'000	3 to 6 months $'000	6 to 12 months $'000	Total $'000
Due to brokers	6,377	–	–	–	6,377
Other payables	718	–	–	–	718
Financial liabilities at fair value through profit or loss	1,103	–	–	–	1,103
Total	**8,198**	**–**	**–**	**–**	**8,198**

2017 Financial liabilities	Less than 1month $'000	1 to 3 months $'000	3 to 6 months $'000	6 to 12 months $'000	Total $'000
Due to brokers	652	–	–	–	652
Other payables	515	–	–	–	515
Total	**1,167**	**–**	**–**	**–**	**1,167**

d. Net fair values

The following table provides an analysis of financial instruments as at reporting date that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets and liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurement are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Fair value of financial assets such as listed investments held at fair value and exchange traded index options that are traded in active markets are based on quoted close prices.

Fair value of forward foreign exchange hedging contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

There has been no transfer between levels from the previous reporting period.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
NOTE 16: FINANCIAL RISK MANAGEMENT (CONTINUED)

d. Net fair values (continued)

2018 Financial assets	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Listed investments at fair value	267,537	–	–	267,537
Forward foreign exchange hedging contracts	–	311	–	311
Exchange traded index options	1,370	–	–	1,370
Total	**268,907**	**311**	**–**	**269,218**
Financial liabilities				
Forward foreign exchange hedging contracts	–	1,103	–	1,103
Total	**–**	**1,103**	**–**	**1,103**

2017 Financial assets	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Listed investments at fair value	253,398	–	341	253,739
Exchange traded equity options	838	–	–	838
Total	**254,236**	**–**	**341**	**254,577**

The carrying amount of cash, trade and other receivables and trade and other payables approximate their fair values.

NOTE 17: RELATED PARTY TRANSACTIONS

Transactions between related parties are on arm's length commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

	2018 $	2017 $
a. Pengana Capital Group Limited		
The Company reimburses Pengana Capital Group Limited for any expenses that are paid on behalf of the Company as appropriate under the Company's constitution. This amount also includes directors fees paid amounting to $153,300. Please refer to remuneration report 3(f) as disclosed in the Directors report.	**(232,965)**	**(214,510)**
b. Pengana Investment Management Limited (Investment Manager)		
Management fees paid and payable as governed by the Investment Management Agreement	**(4,052,838)**	**(5,050,962)**
c. Pengana Investment Management Limited (Investment Manager)		
Performance fee is accrued as governed by the Investment Management Agreement. Performance fee is calculated and accrued daily, payable on 30 June	**(315,231)**	**–**

NOTE 18: STATEMENT OF OPERATIONS BY SEGMENT

The Company has identified its operating segments based on the internal reports that are reviewed and used by the Chief Investment Officer of the Investment Manager in assessing and determining the allocation of resources.

The Company operates in one business segment, being investment in securities.

NOTE 19: SUBSEQUENT EVENTS

On 14 August 2018 the Board declared a final fully franked dividend of 3.5 cents per share franked at 27.5%, in line with the Company's stated dividend policy. This brings the total fully franked dividend for the year to 30 June 2018 to 7.0 cents per share.

The level of franking will depend on the number of options converted into shares prior to 21 September 2018, the dividend record date. If less than 215.4m options are exercised, the dividend will be fully franked. If more options are exercised the franked amount per share will reduce. Any change to the franking amount will be advised the business day following the record date.

The cash yield of this final dividend of 3.5 cents per share taken together with the interim fully franked dividend of 3.5 cents per share paid on 30 April 2018 is 5.88%, based on $1.19, the closing share price at 14 August 2018. Assuming this interim dividend is fully franked, the gross dividend yield is 8.26%.

The after tax NTA of the Company at 10 August 2018 was $304.2m, an increase of 1.1% or $3.4m from the $300.8m recorded at 30 June 2018.

26,600 options have been exercised since 30 June 2018 until 14 August 2018, the date of this report.

Other than the above, the Directors are not aware of any other matter or circumstance not otherwise dealt with in this financial report that has significantly or may significantly affect the Company's operations, the results of those operations or the Company's state of affairs in future years.

NOTE 20: CONTINGENT LIABILITIES

There were no contingent liabilities at 30 June 2018 and 30 June 2017 that required disclosure.

DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of Pengana International Equities Limited formerly Hunter Hall Global Value Limited, I state that:

In the opinion of the directors of the Company:

a) the financial statements and notes of Pengana International Equities Limited for the financial year ended 30 June 2018 are in accordance with the Corporations Act 2001, including:

- giving a true and fair view of the Company's financial position as at 30 June 2018 and of its performance for the year ended on that date; and
- complying with Australian Accounting Standards and the Corporations Regulations 2001; and

b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 1; and

c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration has been made after receiving the declarations required to be made to the directors by the Chief Executive Officer and Chief Financial Officer of the Investment Manager in accordance with section 295A of the Corporations Act 2001 for the financial year ended 30 June 2018.

On behalf of the Board,

F Gooch

Francis Gooch
Chairman
Sydney
14 August 2018

INDEPENDENT AUDITOR'S REPORT

PENGANA INTERNATIONAL EQUITIES LIMITED

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Ernst & Young
200 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
ey.com/au

Independent Auditor's Report to the members of Pengana International Equities Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Pengana International Equities Limited (formerly Hunter Hall Global Value Limited) (the Company), which comprises the statement of financial position as at 30 June 2018, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the Directors' declaration.

In our opinion, the accompanying financial report of Pengana International Equities Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Company's financial position as at 30 June 2018 and of its financial performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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1. Investment existence and valuation

Why significant	How our audit addressed the key audit matter
The Company has a significant investment portfolio consisting primarily of listed equities. As at 30 June 2018, the value of these listed equities, was $269,218,000 which equates to 86% of the total assets of the Company. As detailed in the Company's accounting policy described in Note 1c of the financial report, these financial assets are recognised at fair value through profit or loss in accordance with Australian Accounting Standards. Pricing, exchange rates and other market drivers can have a significant impact on the value of these financial assets and the financial report. Accordingly, valuation of the investment portfolio was considered a key audit matter.	We assessed the effectiveness of the controls relating to the recognition and valuation of investments. We obtained and considered the assurance report on the controls of the Company's administrator in relation to Fund Administration Services for the year ended 30 June 2018 and considered the auditor's qualifications and objectivity and results of their procedures. We agreed all investment holdings, including cash accounts, to third party confirmations at 30 June 2018. We assessed the fair value of all investments in the portfolio held at 30 June 2018 to independently sourced market prices. We assessed the adequacy of the disclosures in Note 16 of the financial report in accordance with the requirements of Australian Accounting Standards.

2. Management and Performance Fees

Why significant	How our audit addressed the key audit matter
Management fees, including performance fees, paid to the service provider, Pengana Investment Management Limited, are the most significant operating expense for the Company. Changes were made in the year to the management and performance fee arrangements. The Company's accounting policy for management and performance fees is described in Note 3 to the financial report. Performance fees are recognised in the financial report if the performance hurdles for the Company have been met at the end of the relevant measurement period, which is the date that the performance criteria is met and the liability has been crystallised. As at 30 June 2018, management fees totalled $4,368,000 which equates to 69% of total expenses. Of this amount, performance fees (excluding GST recovered) totalled $315,000.	We assessed the effectiveness of the controls in relation to the calculation of management and performance fees at the service provider responsible for the calculation. We recalculated management and performance fees, in accordance with the relevant Services agreement, including agreeing the fee rate to the calculation. We assessed the performance fee calculation, including testing the inputs into the calculation model and assessed whether the calculation was in line with the relevant Services agreement. We also assessed whether the criteria for accrual of a performance fee liability were met at 30 June 2018. We assessed the adequacy of the disclosures in Note 3 of the financial report.

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Why significant	How our audit addressed the key audit matter
The quantum of these expenses and the impact that market volatility can have on the recognition of performance fees, resulted in this being a key audit matter. The disclosure of these amounts is included in Note 3 to the financial report.	

Information Other than the Financial Report and Auditor's Report

The directors are responsible for the other information. The other information comprises the information included in Company's 2018 Annual Report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the Directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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Report on the Audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 15 to 17 of the Directors' Report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Pengana International Equities Limited for the year ended 30 June 2018, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Ernst & Young

Ernst & Young

Graeme McKenzie
Partner

Sydney
14 August 2018

ASX INFORMATION

As at 10 August 2018 there were 7,270 shareholders.

DISTRIBUTION OF SHAREHOLDERS

Category (size of holding)	Number of shareholders	Number of ordinary shares
1 – 1,000	474	162,765
1,001 – 5,000	1,249	4,235,389
5,001 – 10,000	1,462	11,880,748
10,001 – 100,000	3,844	116,746,845
100,001 – 9,999,999,999	241	114,449,475
TOTAL	**7,270**	**247,475,222**

SUBSTANTIAL SHAREHOLDERS

The following shareholders have notified the Company that they are the substantial shareholders:

	Number of ordinary shares	% of total issued ordinary shares
Washington H. Soul Pattinson and Company Limited	30,734,274	12.62
Wilson Asset Management Group	29,968,377	12.22

20 LARGEST SHAREHOLDERS – ORDINARY SHARES

	Number of ordinary shares	% of total issued ordinary shares
HSBC Custody Nominees (Australia) Limited	31,262,192	12.63
Washington H. Soul Pattinson and Company Limited	24,370,580	9.85
Pengana Capital Group Limited	6,768,185	2.73
Netwealth Investments Limited	1,592,543	0.64
Nulis Nominees (Australia) Limited	1,431,608	0.58
BNP Paribas Nominees Pty Ltd Hub24 Custodial Serv Ltd	1,303,724	0.53
Karru Bay Pty Ltd	1,200,000	0.48
Mr Orlando Berardino Di Iulio + Ms Catharina Maria Koopman	950,000	0.38
Navigator Australia Ltd	832,052	0.34
Netwealth Investments Limited	658,758	0.27
Mrs Jean Thyne Hadges	643,095	0.26
Mr Francis Maxwell Hooper	579,000	0.23
Forsyth Barr Custodians Ltd	518,919	0.21
Ashmore Investments Pty Ltd	513,330	0.21
Gem Investments Pty Ltd	502,657	0.20
Di Iulio Homes Pty Limited	500,000	0.20
Dr David John Ritchie + Dr Gillian Joan Ritchie	500,000	0.20
Somoke Pty Limited	500,000	0.20
Jos Luck Pty Ltd	452,103	0.18
Tylden Pty Ltd	450,000	0.18

VOTING RIGHTS

Subject to the Company's constitution:

- At meetings of shareholders, each shareholder is entitled to vote in person, by proxy, by attorney or by representative;
- On a show of hands, each shareholder present in person, by proxy, by attorney or by representative is entitled to one vote;
- On a poll, each shareholder present in person, by proxy, by attorney or by representative is entitled to one vote for every share held by the shareholder.

In the case of joint holdings, only one joint holder may vote.

VOTING BY PROXY

Shareholders may appoint a proxy or attorney to represent them at a shareholder meeting. If a proxy is appointed and the shareholder attends the meeting then that proxy is automatically revoked.

A corporate shareholder may appoint a proxy, an attorney or a corporate representative.

DIVIDEND PAYMENTS

The Company offers shareholders the following choices of how dividend entitlements can be received:

- Cash – a cheque is mailed to the shareholder's registered address
- Direct Credit Deposit – the dividend is paid directly to the nominated bank account. Direct credits avoid delay in postal delivery and the possibility of lost cheques and are therefore a preferred option.

TRANSACTIONS IN SECURITIES

	30 June 2018	30 June 2017
Total number of transactions in securities during the year	1,007	1,358
Total brokerage paid or accrued during the year	1,227,323	1,731,922

ASX INFORMATION (CONTINUED)

PORTFOLIO HOLDINGS – 30 JUNE 2018

Company	Business description	Main country of economic activity
Abn Amro Group Nv	Banking	Netherlands
American Express Usd	Credit cards	USA
Antofagasta Plc	Metals and mining	Chile
Atlas Copco Ab Ser B Npv Post Split	Industrial tools and equipment	Sweden
Autoliv Inc	Auto parts	Sweden
Bakkafrost Pf	Salmon farming	Faroe Islands
Becle Sa De Cv	Food and staples retailing	Mexico
Bharti Infratel Ltd	Infrastructure	India
Celanese Corp Series A	Materials	USA
Check Point Software Tech	Software and hardware	Israel
China Mobile Ltd	Mobile communications	China
Cigna Corp	Health services	USA
Cme Group Inc Com	Electronic trading	USA
Colgate Palmolive Usd1	Consumer staples	USA
Corticeira Amorim Sgps Sa	Holding company	Portugal
Deutsche Boerse Ag	Electronic trading systems	Germany
Dollar General	Retail	USA
Electronic Arts Inc	Video games	USA
Enn Energy Holdings Ltd	Energy	China
Epiroc Ab Ser B Npv	Mining, infrastructure and natural resources	Sweden
Fresnillo Plc	Precious metals mining	Mexico
Heineken Nv	Brewing	Netherlands
Howard Hughes Corp	Real estate	USA
Intercontinental Exchange Inc	Exchange	USA
Kar Auction Services Inc	Car sales	USA
Koninklijke Ahold Delhaize Nv	Food and staples retailing	Netherlands
Medtronic Plc	Medical devices	USA
Newmont Mining Corp Usd	Gold mining	USA
Novo Nordisk A S	Pharmaceuticals	Denmark
Nutrien Ltd Com Npv	Crop inputs and services	Canada
Reckitt Benckiser Group Plc	Consumer goods	UK
Sabre Corp	Travel technology	USA
Sandvik Ab	Tools and tooling systems	Sweden
Sealed Air Corp	Packaging	USA
Sligro Food Group Nv	Food and staples retailing	Netherlands
Smiths Group Plc	Diversified engineering	UK
Tencent Hldgs Limited	Investment holding	China
Tomtom Nv	Navigation and mapping	Netherlands
Veoneer Inc Sdr Each Rep 1 Usd1 Temp	Automotive safety	Sweden
Wacker Chemie Ag	Chemical manufacturing	Germany

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PRINCIPAL REGISTERED ADDRESS OF THE COMPANY

The principal registered office is Level 12, 167 Macquarie Street, Sydney, NSW 2000 Australia.
Telephone (02) 8524 9900.

REGISTRY

Computershare Investor Services Pty Limited, Level 3, 60 Carrington Street, Sydney NSW 2000.
Investor Enquiries 02 8216 5700.

STOCK EXCHANGE LISTING

Quotation has been granted for all the ordinary shares of the Company on all Member Exchanges of the Australian Securities Exchange Limited ("ASX"). The Company shares are traded under the symbol PIA. Details of trading activity are published in most daily newspapers and also obtainable from the ASX website: www.asx.com.au.

INVESTMENT MANAGEMENT AGREEMENT

The Company has appointed Pengana Investment Management Limited (the Manager), under an Investment Management Agreement dated 29 January 2004, to manage the investment portfolio of the Company. The Manager manages and supervises all investments of the Company, including providing monthly valuations, for the term of the contract.

TERM

The Investment Management Agreement is for an initial period of 25 years commencing on the date the Company listed on the ASX (March 2004), unless terminated earlier in accordance with terms of the Investment Management Agreement.

POWERS OF THE MANAGER

For the purpose of carrying out its functions and duties under the Investment Management Agreement, the Manager has the powers of a natural person and absolute and unfettered discretion to manage the investment portfolio and to do all things and execute all documents necessary for the purpose of managing the investment portfolio.

MANAGEMENT FEE

In return for the performance of its duties as Manager of the Company's investment portfolio, the Manager is entitled to a management fee of 1.2% per annum of the gross value of the investment portfolio, payable on a monthly basis.

PERFORMANCE FEE

The Manager is also entitled to a Performance Fee, equal to 15% of any out-performance of the investment portfolio compared to its benchmark the MSCI World Accumulation Net Return Index in Australian Dollars. The fee is aggregated daily and paid annually, subject to the following:

i. if the aggregate Performance Fee for a Financial Year (including any amounts accrued from a previous year) is a positive amount but the Investment Return of the investment portfolio is not greater than zero, then that Performance Fee shall be carried forward (as an accrual) to the following Financial Year,

ii. if the aggregate Performance Fee for a Financial Year (including any positive or negative amount carried forward from the previous year) is a positive amount but the payment of the accrued Performance Fee would cause the adjusted Investment Return of the investment portfolio for the year to be negative, that portion of the Performance Fee that would cause the Investment Return of the investment portfolio to be negative shall be carried forward (as an accrual) to the following Financial Year,

iii. if the aggregate Performance Fee for a Financial Year is a negative amount, no Performance Fees shall be payable to the Manager in respect of that Financial Year, and the negative amount shall be added to the Performance Fee of the succeeding year.

REIMBURSEMENT OF EXPENSES

The Company must reimburse to the Manager, in addition to its remuneration and rights of indemnification or reimbursement conferred under any other provision of the Investment Management Agreement or by law, all charges and expenses reasonably and properly incurred by the Manager in respect of the Company.

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PENGANA INTERNATIONAL EQUITIES LIMITED
ACN 107 462 966

Level 12, 167 Macquarie Street,
Sydney, NSW 2000

T: +61 2 8524 9900
F: +61 2 8524 9901

PENGANA.COM/PIA