

PENGANA INTERNATIONAL EQUITIES LIMITED (ASX: PIA)

**MAY 2018
PERFORMANCE
UPDATE**

DESCRIPTION AND FEATURES

Pengana International Equities Limited provides access to an actively managed core portfolio of 30-50 companies across developed and developing markets via a listed investment company structure.

Investments are made predominantly in companies that deliver stable yet growing free cash flow throughout cycles (which we classify as 'Core' holdings) whilst also taking positions in more cyclical companies ('Cyclical') and those whose valuation has been materially misconstrued by the market ('Opportunistic').

We avoid investments in companies that in our opinion are harmful to people, animals or the environment. Visit our website for more information on the Company.

Portfolio managers	Jordan Cvetanovski Steven Glass
ASX code shares	PIA
ASX code options	PIAO
Founded	19 March 2004
Mandate inception	1 July 2017
Asset class	International Equities
Fees	Management fee: 1.23% p.a. Performance fee: 15.38% of any return greater than the MSCI World ³
DRP	Yes
Share price¹	\$1.13
Option price¹	\$0.08
NTA (pre-tax)^{1,2}	\$1.22
NTA (post-tax)^{1,2}	\$1.20
Premium/discount to pre-tax NTA¹	(7.21%)
Ordinary shares on issue¹	247.44m
Bonus options on issue¹	242.69m
Benchmark	MSCI World ³

¹ At 31 May 2018.

² The figures are unaudited.

³ MSCI World refers to the MSCI World Total Return Index, Net Dividends Reinvested, in A\$.

**WE REMAIN
COMFORTABLE
WITH OUR CURRENT
CONSERVATIVE
POSITIONING**

PERFORMANCE COMMENTARY

In May the portfolio delivered -1.2% while its benchmark returned 0.4%. In local currency the portfolio delivered marginally positive returns but the weight of FX, including our hedging of the portfolio's USD exposure, resulted in a negative return for the month.

As cited in numerous prior letters, the portfolio has low US tech exposure. While this positioning has recently been a headwind to performance, we believe the positioning is appropriate, given the growing risks in that sector due to its valuation.

The three largest positive stock contributors were Sabre, China Maple Leaf Educational Systems, and Electronic Arts. Sabre and EA's performance followed their 1Q18 results. China Maple Leaf's share price benefited from several research houses initiating coverage on the Chinese education sector with buy recommendations.

The three largest stock detractors were Dollar General, Wacker Chemie and ABN Amro. Dollar General's share price sharply declined following its 1Q18 result, but it has since recovered the entire loss. Wacker's share price was weak due to a decline in the polysilicon price

and ABN Amro declined along with other European financials due to European political instability.

The portfolio's current largest industry exposure is in Materials, partly reflecting investments we have identified in the Chemicals industry. The portfolio also has meaningful exposure to Consumer Staples, which have been notably sold off over the past year. Having dramatically sold down the portfolio's IT exposure earlier in the year, that sector now accounts for just 10% of the portfolio. We think even that figure overstates the exposure because it includes companies like TomTom and Check Point, which are not part of the in-vogue tech complex.

The portfolio continues to have relatively large exposure to Europe + UK (38%) and emerging markets (14%), while having relatively small exposure to the US (33%).

The weight of the Core segment was 63% at month end, at the low end of our target range (60-80%). We are prioritising increasing the weight of the Core segment and the team has a pipeline of prospective ideas. Cyclical exposure declined marginally to 15% and Opportunistic was 7%.

PERFORMANCE

Net performance for periods ending 31 May 2018⁴

	1 Month	FYTD	Since Inception p.a. ⁵
PIA	-1.2%	10.8%	7.9%
Benchmark	0.4%	12.7%	7.1%

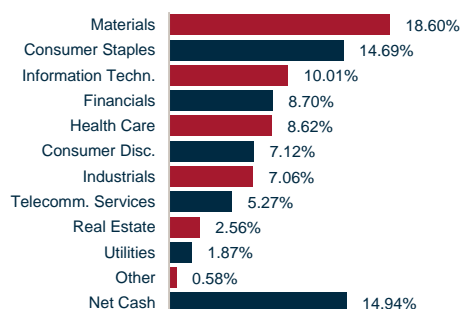
Pengana International Equities Limited has been managed under the new investment mandate by the Pengana investment team since 1 July 2017. The performance since inception in the table above refers to the movement in net assets per share since the inception of PIA in March 2004. See footnotes ⁴ and ⁵ below for further details.

PORTFOLIO INFORMATION

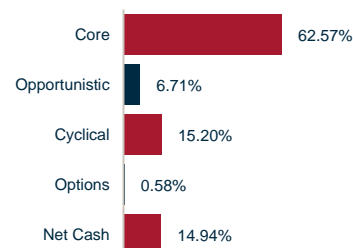
Top 10 Stocks		
Name	Country	Sector
Celanese	United States	Materials
China Mobile Ltd	Hong Kong	Telecommunication Services
Cigna Corp	United States	Health Care
Dollar General	United States	Consumer Discretionary
Heineken	Netherlands	Consumer Staples
Reckitt Benckiser Group Plc	United Kingdom	Consumer Staples
Sabre Corp	United States	Information Technology
Sealed Air Corp	United States	Materials
Tencent Holdings Limited	China	Information Technology
Wacker Chemie	Germany	Materials

Largest 3 Contributors	Largest 3 Detractors
Sabre Corp	Dollar General
China Maple Leaf Educational Systems	Wacker Chemie
Electronic Arts Inc	ABN Amro

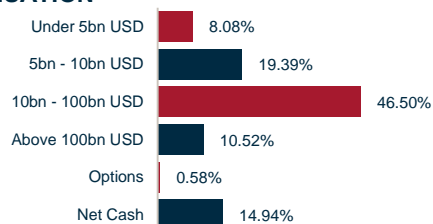
SECTOR BREAKDOWN



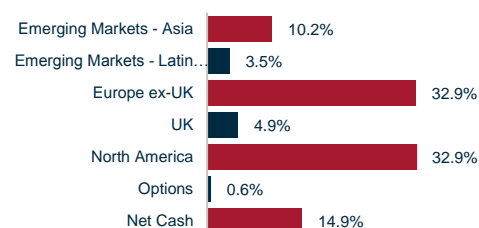
SEGMENT



CAPITALISATION



GEOGRAPHIC



4. 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.

5. Inception date of PIA: 19 March 2004, new investment team with new mandate adopted: 1 July 2017

None of Pengana International Equities Limited ("PIA"), Pengana Investment Management Limited (ABN 69 063 081 612, AFSL 219462) nor any of their related entities guarantees the repayment of capital or any particular rate of return from PIA. Past performance is no guarantee of future performance. This document has been prepared by PIA and does not take into account a reader's investment objectives, particular needs or financial situation. It is general information only and should not be considered investment advice and should not be relied on as an investment recommendation.

FOR FURTHER
INFORMATION
PLEASE VISIT OUR
WEBSITE:
PENGANA.COM/PIA