

Renewed Focus on Emerging Markets

NOVEMBER
2019

NTA (PRE TAX)^{1, 2}

\$1.299

PERFORMANCE SINCE INCEPTION³

8.2% pa

Performance

Net performance for periods ending 30 November 2019⁴

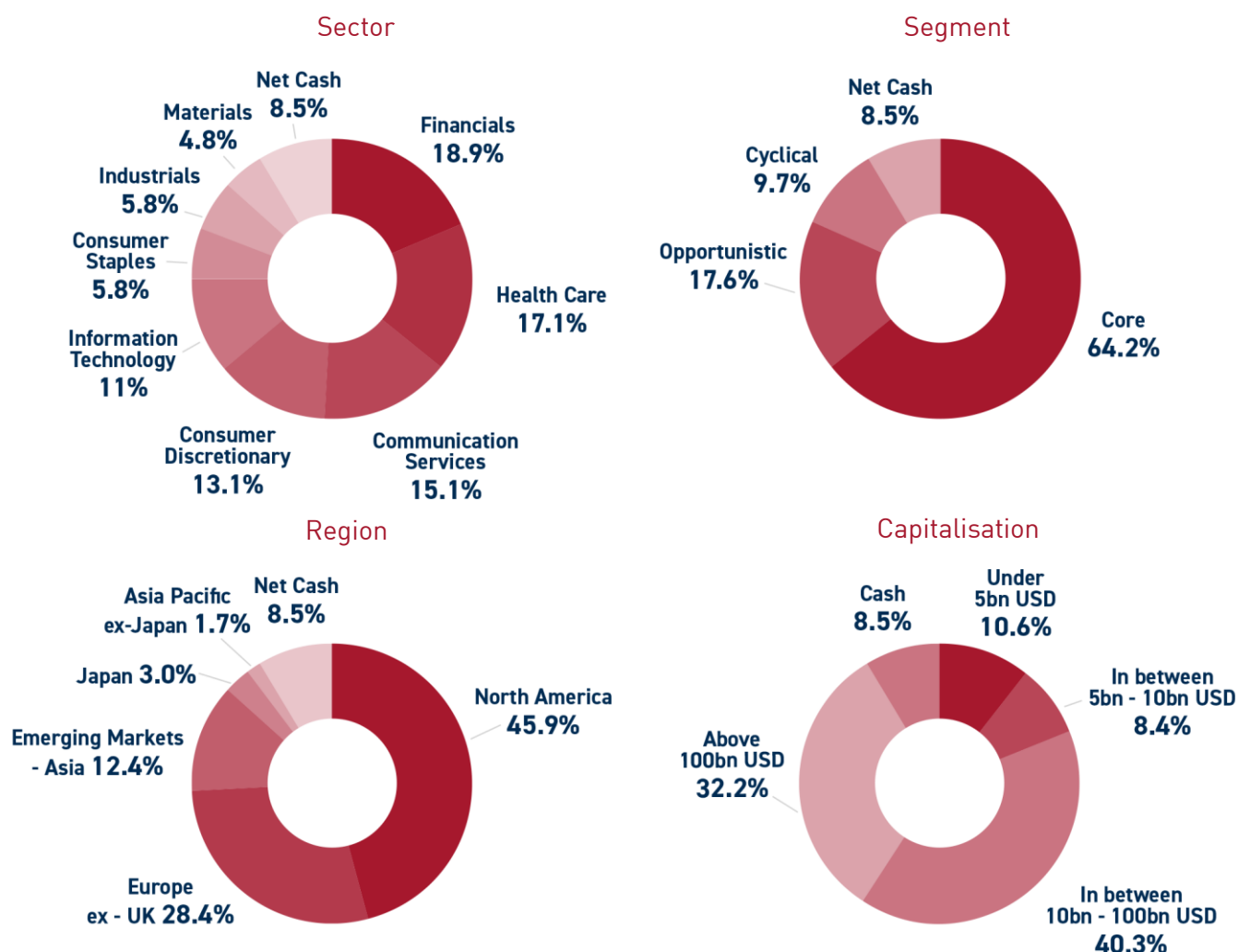
	1 month	1 year	Since inception p.a. ³
PIA	4.9%	18.2%	8.2%
MSCI World ⁶	4.7%	23.6%	8.0%

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 3, 4 and 5 below for further details.

Top 10 Holdings

01		Charter Communications Inc	 United States	Communication Services
02		Mowi ASA	 Norway	Consumer Staples
03		Cigna Corp	 United States	Health Care
04		UnitedHealth Group Inc	 United States	Health Care
05		Medtronic	 United States	Health Care
06		Deutsche Boerse	 Germany	Financials
07		Alibaba Group	 China	Consumer Discretionary
08		Aon	 United States	Financials
09		Microsoft	 United States	Information Technology
10		Tencent Holdings	 China	Communication Services

Diversification



Market Commentary

This month we discuss our renewed focus on Emerging Markets and on companies economically sensitive to Emerging Markets. We haven't discussed Emerging Markets for a long time but we think we will touch on Emerging Markets more and more over the next twelve months to three years. We will also highlight an example of an Emerging Markets company that we've recently invested in that, in our opinion, ticks all the boxes.

Firstly, let's look at how the broader market has performed over the month.

November was another strong month for markets with the portfolio up close to 5% for the month. What particularly pleases us is the way we achieved that performance, through companies whose value actually went up for the right reasons, particularly our investments in the U.S health insurance sector (such as Cigna and UnitedHealth) and in Indian telecommunications.

We have been talking for some time about how attractive these U.S. health insurance companies are, and how well they've performed over the years; and they continue to perform well as we still think there's considerable upside in the sector and so continue to be committed holders of these businesses.

Our investments in India have similarly done very well. Over the last two to three years the Indian telecommunication sector has been disrupted strongly by a third entrant (Reliance Jio) and as a result prices have plummeted for the average telco plan, which has meant that profitability of all the firms in the sector has come down. We saw this as unsustainable, believing that companies eventually would have to raise prices because, on both an absolute and relative basis, Indian telecommunication costs are very low. In fact, you'd be struggling to find (even if you look in very remote places like sub-Saharan Africa) a country where prices are lower than that of India. This means close to 1.4 billion people enjoying these unsustainable low prices. Over the last month our thesis was proven right with announcements that some companies are deciding to raise their prices, which is good for both the portfolio and for the companies.

On the broader macro level we are starting to see strong out-performance of certain markets and certain regions, hinting at signs of reflationary forces coming back into the system. Now, if this eventuates, it is quite a big change in the dynamic of the market because, for the last 10 years, we've had nothing but deflationary forces driving 'investment decisions'. This has led to the out-performance of compounding growers such as Visa, MasterCard, Facebook and Google as investors looked for growth, and the alternatives such as bonds and money markets were very unattractive.

Now, since the US Federal Reserve Board decided to stop quantitative tightening in September, a lot of liquidity has been injected into the system (thus far US\$325 billion) and a further US\$500 billion is expected to be injected by the end of this year. These numbers are astronomical, and the effect this has had is the expectation that inflation would come back into the system. Countries like China, India, Brazil and Russia have done phenomenally well since then, and even if we look at countries that are particularly sensitive to how the Emerging Markets perform and the growth in their economies (e.g. Germany), these economies have also grown very strongly.

Another recent theme is that small caps are starting to out-perform their larger counterparts. This is something we haven't seen for quite some time.

Whilst these are early days, we feel we are starting to see some real indications across broader indices that something is taking hold. We think that this will happen over the next twelve months to three years and, as a result, we have been shifting our portfolio slowly but surely to have more exposure to these kind of markets; particularly to companies either domiciled in Emerging Markets, or companies that benefit from Emerging Market growth but that are domiciled in Western markets.

One such company that is domiciled in Emerging Markets is Huazu Group, based in China. Huazu owns and operates hotels and has grown tremendously, starting with 4 hotels 15 years ago growing to over 5,000 hotels under its umbrella currently. This is a phenomenal achievement by any measure. What has allowed Huazu to grow very rapidly of late is the fact that they don't have to buy the hotel's properties themselves, instead property owners flock to them, and through profit-sharing agreement say "you take these keys, you take this hotel, this property, turn it into one of your branded hotels, and let me benefit from your success." As a result their network of hotels across China and their Loyalty Program, which has over 100 million active users at any one time, ensures that the occupancy rate for Huazu is over 90% where the typical hotel will enjoy 55% – 60% at most. This is a huge improvement on the financials of a typical hote, and the owner of the hotel is happy because they share in the increased profits, and Huazu is happy because they've added another property at a very low cost. Huazu is growing at a pace of 700+ hotels a year.

As people feared the outcome of what's happening with the trade war and what that means for travel within China (business travel in particular) the Huazu share price fell dramatically with shareholders fearing the worst. Our team had done a lot of work on the company prior to this price fall, and we had been waiting for the right opportunity to buy this business at the right price, and we finally had the opportunity in the December 2018 quarter.

More about Pengana International Equities Limited (ASX: PIA)

The leading international ethical portfolio listed on the ASX

Portfolio Managers	Jordan Cvetanovski Steven Glass	Asset class	International equities
Benchmark	MSCI World Total Return Index, Net Dividends Reinvested, in A\$	Fees	Management fee: 1.23% p.a. Performance fee: 15.38% of any return greater than the MSCI World ³
Founded	19 March 2004	Mandate inception	1 July 2017
Ordinary shares on issue	254.07 m	DRP	Yes
Pre- tax NTA	\$1.299	Post-tax NTA	\$1.246
Share price	\$1.118	Premium/discount to pre-tax NTA	14.00% Discount

Pengana International Equities Limited provides access to the benefits of an actively managed core portfolio of 30-50 ethically screened companies across developed and developing global 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.

1. As at 30 November 2019.
2. The figures are unaudited.
3. Inception date of PIA: 19 March 2004, new investment team with new mandate adopted: 1 July 2017.
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. MSCI World refers to the MSCI World Total Return Index, Net Dividends Reinvested, in A\$.

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