

# **ACHIEVING TRUE DIVERSIFICATION IN THE FACE OF MARKET UNCERTAINTY**

At the start of the year, no one would have predicted that a virus would be the potential catalyst to pop the bull market, but that is exactly where we are today. What this demonstrates is that the world is inherently unpredictable and it's this unpredictability that we, as fund managers, spend a lot of time thinking about and preparing for.

There are several tools that you can use to manage unpredictability, two of which are diversification and holding positions in stocks that benefit from market turbulence, such as derivatives exchanges.

Diversification is difficult because you don't want to be so diversified that you resemble an ETF (Exchange-Traded Fund), but you do need sufficient diversification so that no one factor will make you or break you. We manage this diversification conundrum by holding 30-40 stocks across a variety of industries and geographies.

Though even that is not enough, because you can have two stocks in different geographies and industries that are still highly correlated. American Express and Ryanair are a prime example of this relationship. One is an American payments business and the other is a European Airline, but they have a high correlation due to their exposure to global travel. Thus, when diversifying the portfolio, we must consider the underlying drivers of our businesses.

To give you a sense of the portfolio's current diversification, we currently hold positions in businesses that directly benefit from market volatility, such as derivative exchanges and market makers. These businesses did very well during the February spike in volatility.

We also hold investments in health insurers such as UnitedHealth and Cigna. We identified these companies because they've become attractively priced since Bernie Sanders and Elizabeth Warren threatened to introduce publicly-funded health insurance for the whole US, should they win the upcoming election.

We think that this outcome is unlikely. Firstly, it doesn't make economic sense because it would cost the US approximately US\$30 trillion dollars to implement. Even thinking more practically, for this to happen, it would depend on several events coming to fruition. Firstly, it would require Sanders or Warren to win the Democratic nomination. They would then have to win the US election. They would then have to get a bill passed through the Lower House. They would then have to get 60% of the Upper House to vote for it. And they would then have to defend the bill through a variety of inevitable legal cases. To be blunt, we think these are very low-probability events.

We also hold investments in the Chinese internet behemoths, Alibaba and Tencent, which have dominant market positions in an economy that continues to have a very favourable long-term outlook. Considering that the household final consumption expenditure per capita in China is roughly half of places like Malaysia, Argentina and Turkey, there's still a very long runway for growth in that market.

We also have an investment in Bharti Infratel, an Indian cellular tower business that is both debt-free and benefits from the inevitable increased investment into cellular infrastructure in India.

We even have investments in a variety of healthcare stocks that will benefit from the ageing and fattening population. Some examples are Medtronic, the world's largest medical device business, and Novo Nordisk, a Danish company that is the leading producer of insulin for diabetics. We also have an investment in Merck, an exciting German pharmaceutical and life science company.

We think these examples provide a very strong snapshot of the portfolio's diversification, which is one of the reasons we think our portfolio is built to last. So when people ask us how we are responding to the coronavirus, there aren't any drastic moves that we have to make.

We're very comfortable with the portfolio as it stands today.

The proof is in the pudding because, during the February sell-off, our fund outperformed the benchmark by more than 2%, validating our thesis and demonstrating the defensive characteristics that we are seeking.

Our portfolio is not just defensive, we also have exciting investments in companies that will benefit from the US health insurance industry not being nationalized, long-term growth in consumer expenditure in China, growth in cellular communication in India and the ageing and fattening global population.

So the key message is that we believe diversification is an important tool to manage the world's inherent unpredictability. As we look at our fund, we are pleased with the level of diversification and the results it is producing and therefore we don't see a need to make any drastic changes to the fund in the face of current market volatility.

## TOP HOLDINGS (ALPHABETICALLY)

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Aon

United States

Financials



Charter Communications Inc

United States

Communication Services



Cigna Corp

United States

Health Care



CME Group

United States

Financials



Deutsche Boerse

Germany

Financials



Medtronic

United States

Health Care



Mowi ASA

Norway

Consumer Staples



Rakuten Inc

Japan

Consumer Discretionary



Tencent Holdings

China

Communication Services

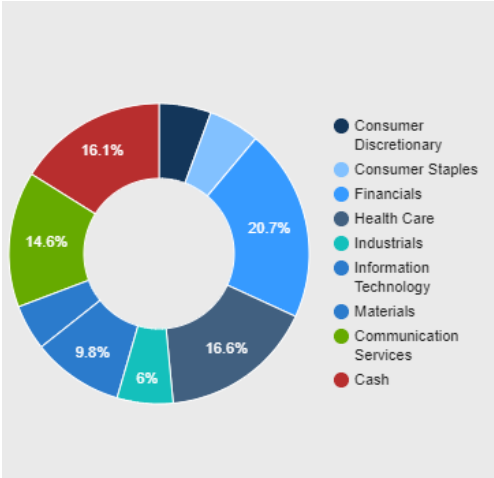


UnitedHealth Group Inc

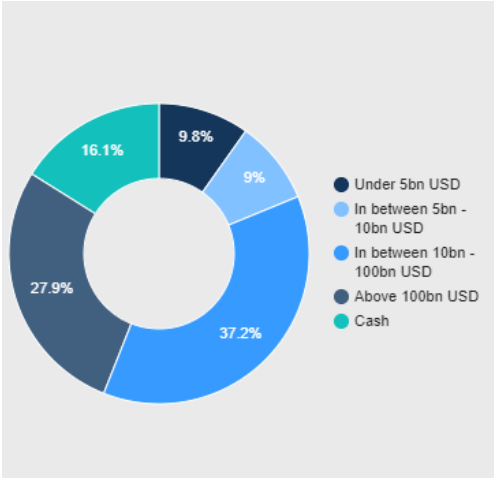
United States

Health Care

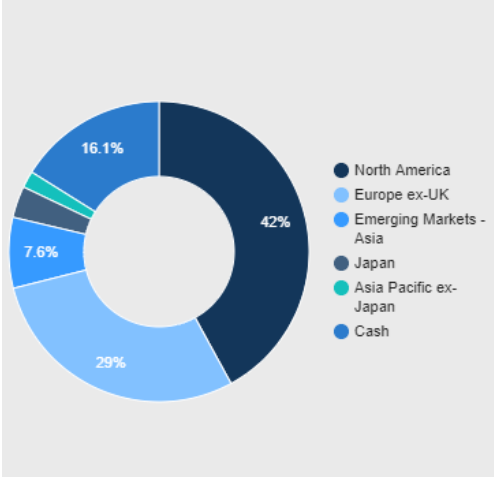
SECTOR BREAKDOWN



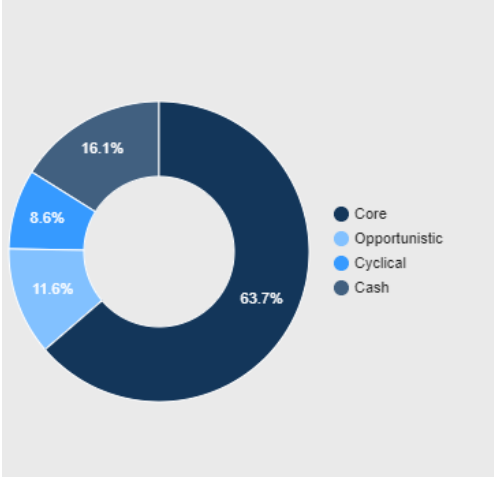
CAPITALISATION BREAKDOWN



REGION BREAKDOWN



SEGMENT



PORTFOLIO PERFORMANCE

NET PERFORMANCE FOR PERIODS ENDING 29 FEB 2020<sup>1</sup>

	1 MONTH	1 YEAR	SINCE INCEPTION P.A. <sup>2</sup>
Fund	-2.4%	14.8%	8.2%
Benchmark	-4.9%	15.5%	7.7%

PORTFOLIO PERFORMANCE

NET PERFORMANCE SINCE INCEPTION<sup>2</sup>



VOLATILITY <sup>3</sup>	12.5%	NUMBER OF STOCKS	33
BETA (USING DAILY RETURNS) <sup>4</sup>	0.43	MAXIMUM DRAW DOWN	-47.4%

PORTFOLIO MANAGERS



Jordan Cvetanovski  
CIO & Portfolio Manager



Steven Glass  
Deputy Portfolio Manager & Analyst

FEATURES

PORTFOLIO MANAGERS	Jordan Cvetanovski Steven Glass
ASX CODE	PIA
FEES	Management Fee: 1.23% p.a. Performance Fee: 15.38% of any return greater than the MSCI World***
INCEPTION DATE	19 March 2004
INVESTMENT OBJECTIVE	MSCI World Total Return Index, Net Dividend Reinvested, in A\$
NTA POST TAX **	A\$ 1.256
NTA PRE TAX **	A\$ 1.291
PRICE CLOSE **	A\$ 1.040
UNITS ON ISSUE **	254.02m
PREMIUM/DISCOUNT TO PRE-TAX NTA **	-19.4%
DRP	Yes

DESCRIPTION

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.

1. As at the last day of last month prior to publishing of this report. 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.

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

3. Annualised Standard Deviation since inception

4. Relative to MSCI World

\*\* As at the last day of last month prior to publishing of this report. The figures are unaudited.

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

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. 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. 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.

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