

## Investment Update

Dear Shareholder,

I am writing to provide an update on your investment in Pengana International Equities Limited (ASX: "PIA"), as well as to reach out to let you know that our team is always available to assist you with managing your investment with us.

The disruption to world equity markets caused by COVID-19 has been sudden and severe, with many indices falling back to levels not seen for several years.

**PIA's net tangible asset value before provision for tax on unrealised income and gains ("NTA") was \$1.15 as at 20 March 2020. This is a decrease of 10.8% since 1 January 2020.**

**The broader equity market, as defined by the MSCI World Total Return Index, Net Dividends Reinvested, in A\$ (MSCI World), has decreased by 15.5% in the same period.<sup>1</sup>**

The aim of PIA's investment strategy is to generate consistent long-term returns whilst reducing volatility and the risk of losing capital. As at the time of writing this letter the team has delivered on these objectives - over a complete cycle, encompassing both a bull and a bear market, the strategy has kept up with a roaring bull market and has declined less than the current bear market.

The investment team's portfolio construction as well as its stock selection across a wide range of businesses in a variety of regions were the major contributing factors to this outcome.

The team's core strength has always been selecting high quality companies with:

- predictable cash flows,
- low debt levels and
- diverse end markets.

These factors ensure that PIA has a portfolio that is soundly positioned to perform well under a range of market conditions. This has been the case for 2020 so far.

It is easy to assume that the strong out-performance of the portfolio was due to the team's foresight into the impact that COVID-19 would have on equity markets. This is not the case as we never structure our portfolios based upon predicting binary macro outcomes – but rather to generate good medium-to-long term returns with the discipline to focus on capital preservation.

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<sup>1</sup> It is worth pointing out that the relative performance by PIA in comparison to the MSCI World is actually understated. This is because the movement in the NTA is after taxes paid on realised income and after all expenses paid and accrued by the company whereas the MSCI World is unaffected by these.

## Going Forward

History has shown that equity market crashes often create buying opportunities for those patient investors who are able to successfully navigate their way.

Whilst markets are currently in a period of severe uncertainty, volatility and despair, we think that it is vital to engage in a calm, rational and unemotional analysis of investment opportunities that have the potential to deliver strong upside. Our relative success during this recent market turmoil has placed us in the best position since the Global Financial Crisis to do just that.

**Over the years, we have built a watch list of high-quality businesses which have sound management and good future growth prospects but have been too expensive to buy. Several of these businesses have approached, or are approaching, valuations which satisfy our investment criteria.**

**We have started selectively buying these businesses and believe we are setting up PIA investors with a strong and resilient portfolio with great growth potential as the situation settles.**

In prior newsletters, we have warned of the risks of following the herd in an over-exuberant market. Today we are warning of the risks of not taking advantage of investment opportunities in a despondent market. Life will go on, the current economic and health malaise will be resolved and high quality businesses bought at the right price will make money for the prudent and patient investor.

Whilst we cannot see the future on how and when the COVID-19 crisis will end, I do believe that our team, led by Jordan Cvetanovski and Steven Glass, will continue to execute their calm and disciplined approach as they have done in previous crises.

PIA shares have been trading on market at a substantial discount to NTA. Whilst this discount is similar on average to many of the other ASX listed investment companies investing in global markets, this is no doubt disappointing for our shareholders - as it is to ourselves. We do, however, believe that when equity markets ultimately settle, investors will take note of how PIA has performed, resulting in strong demand for PIA shares and a closing of this discount.

**Finally, I would like to remind you that the interim fully franked dividend for PIA of 2.5 cents per share will be paid on Thursday 30 April 2020 to all shareholders on the register as at Thursday 9 April 2020.**

Please feel free to call or email our client service team if you would like to discuss your investment. Whilst our teams are working remotely, we continue to operate at full force and are always happy to hear from you.

Wishing you, your family and your friends, healthy and prosperous times ahead.

Regards,

Russel Pillemer  
Managing Director, Pengana International Equities Limited

Authorised by Russel Pillemer, Managing Director and Frank Gooch, Chairman

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