

Covid-19 created havoc as the global economy was placed into an induced coma. In response, markets seized-up, convulsed, and collapsed. Central banks came to the rescue and governments are implementing record stimulus plans with more (probably) to come.

Amidst this environment, in 1Q20 the MSCI World Total Return Index, Net Dividend Reinvested, in Australian Dollars "Index") declined 9.3% and Pengana International Equities Limited's portfolio declined 4.2%. This outperformance came from both the portfolio's equity investments and cash holdings.

PIA seeks businesses that are highly cash flow generative, growing, reasonably priced and have low financial leverage (debt). There is no question of these companies' survival and they tend to fare relatively well during periods of turmoil. We also actively seek investments in businesses that benefit from market turmoil, such as Flow Traders, which delivered a +27% return over the quarter. Our approach has historically worked during period periods of market turmoil and 1Q20 was no different.

We have often discussed the importance of managing volatility and 1Q20 is a perfect case in point. During Mar-20 volatility as measured by the Chicago Board Options Exchange's CBOE Volatility Index ("VIX") hit an all-time high with the S&P500 having its fastest ever move into a bear market.

The panic was palpable as many rushed for the exit and investors felt the crushing pain of losses. Judging by the public's response you would be excused for not knowing that despite the Index's almost 10% decline over the quarter, the Index was still up 3% vs the prior year and up 30% on a three-year basis. This isn't to downplay the unease many are feeling but it is a comment that volatility is a bad thing for investors' psyche, even if it comes with a 30% three-year return. If ever there was evidence of the importance of considering volatility in one's investment objectives it is now.

It is worth considering why there has been so much volatility. We believe the answer lies in both technical and fundamental factors. The technical factors relate to market structure and the interest rate environment. The fundamental factors relate to what impact Covid-19 will have on the global economy.

The rise of algorithmic trading and low interest rates magnify volatility when it arises. There is a huge sub-segment of algorithmic trading that is designed to sell when markets decline and buy when they rise, thereby inflating market moves. Low interest rates are also important because low rates imply high bond duration, which is another measure of fixed income volatility. These factors mean when volatility does arise, it is likely to be severe.

Moving on to the fundamental factors contributing to volatility and market weakness. It is well understood that Covid-19 is having, and will continue to have, a severe impact on the global economy. The questions are for what length of time, what type of rebound and what will be the impact of the monetary and fiscal stimulus?

Our starting premise is that the economic impact of Covid-19 is likely to escalate during 2Q20 as the full impact of the global lock down is felt. For example, the US unemployment rate of 4.4% in Mar-20 is forecast to be 10% by mid-year^{*} and both the US and EU GDP is forecast to decline by 7-8% (28-32% annualized) in 2Q20^{**}. These are eye-watering numbers that the developed world has not witnessed before in such a short period of time.

Recovery will be predicated on containing Covid-19. We assume that will occur during 2H20 following the extensive global lock downs and as we move into the northern hemisphere summer. At this stage there doesn't appear to be a

permanent destruction of demand and coupled with expected further government stimulus, the global economy should rebound. It is too early to hazard a guess as to whether that rebound will be V-shaped or U-shaped.

Considering our expectations, we have taken several actions. Firstly, early in Mar-20 we exited every position that we believed was highly exposed to the negative impact of Covid-19, including American Express, KAR Global, Booking Group, Huazahu Group and AIA Group. Secondly, we invested in businesses that hit our buy price and are likely to benefit from Covid-19 or the fiscal stimulus that is likely to be implemented post this crisis, including Thermo Fisher, Vestas Wind Systems and Sika. Finally, we have loaded the trigger to buy several other businesses we have long wished to own but have not yet reached our buy price.











Amidst all this fear and panic it would be remiss not to mention some silver linings. The environment has breathed a notable sigh of relief. With less industry, travel and pollution the Mumbai sky is clear, Venice's usually dark, murky waterways have turned noticeably clearer, the atmosphere has been spared millions of tonnes of CO2 normally emitted by aeroplanes and families are spending more time together. Finally, as it relates to our fund, we have demonstrated the effectiveness of our risk management strategies and we are finding many more superb investment opportunities that will set up the portfolio to continue delivering healthy returns into the future.

* [US Congressional Budget Office, 2 Apr 2020 < https://www.cbo.gov/publication/56314>](https://www.cbo.gov/publication/56314)

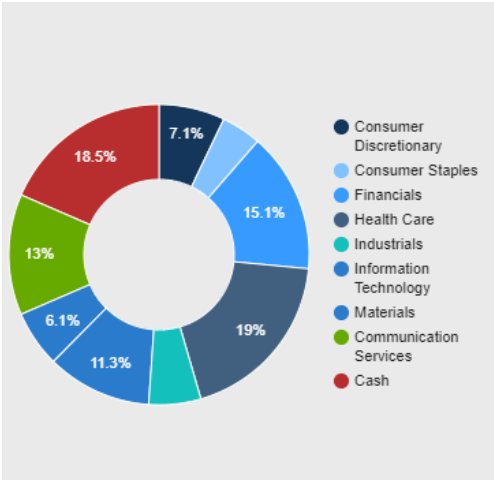
** [US Congressional Budget Office, 2 Apr 2020 < https://www.cbo.gov/publication/56314>](https://www.cbo.gov/publication/56314)

[Fitch, Deep Global Recession in 2020 as Coronavirus Crisis Escalates, 2 Apr 2020 < https://www.fitchratings.com/research/sovereigns/deep-global-recession-in-2020-as-coronavirus-crisis-escalates-02-04-2020>](https://www.fitchratings.com/research/sovereigns/deep-global-recession-in-2020-as-coronavirus-crisis-escalates-02-04-2020)

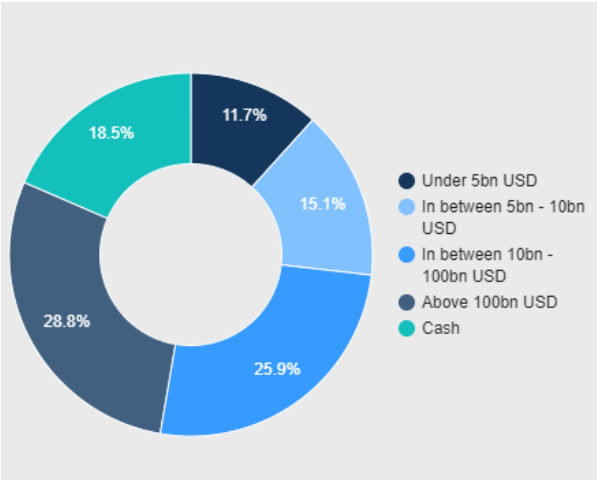
TOP HOLDINGS (ALPHABETICALLY)

	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
	Flow Traders	Netherlands	Financials
	Medtronic	United States	Health Care
	Mowi ASA	Norway	Consumer Staples
	Tencent Holdings	China	Communication Services
	UnitedHealth Group Inc	United States	Health Care

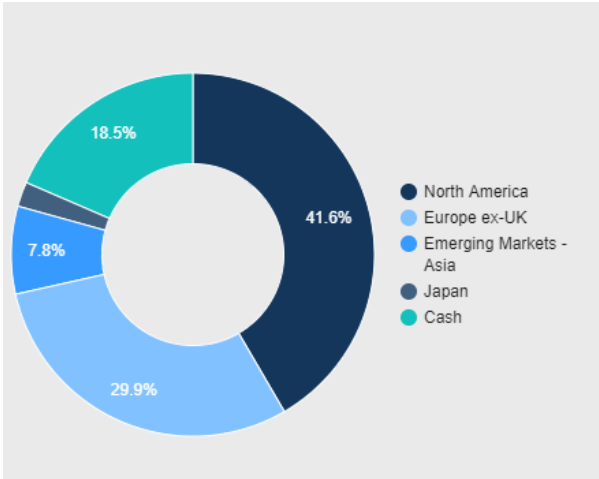
SECTOR BREAKDOWN



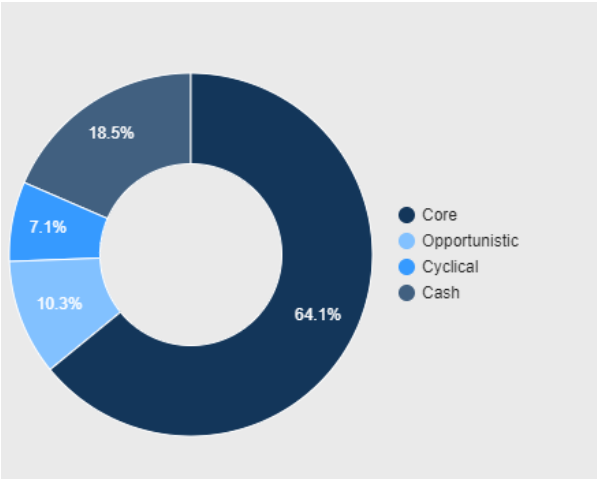
CAPITALISATION BREAKDOWN



REGION BREAKDOWN



SEGMENT



	1 MONTH	1 YEAR	SINCE INCEPTION P.A. ²
Fund	-5.5%	7.1%	7.7%
Benchmark	-8.6%	4.0%	7.1%



VOLATILITY ³	12.6%	NUMBER OF STOCKS	36
BETA (USING DAILY RETURNS) ⁴	0.47	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
FEEES	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\$ 1.205
NTA PRE TAX **	A\$ 1.221
PRICE CLOSE **	A\$ 0.920
UNITS ON ISSUE **	253.79m
PREMIUM/DISCOUNT TO PRE-TAX NTA **	-24.7%
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.

Authorised by: Paula Ferrao, Company Secretary.

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