

OUTPERFORMED THE STRONGEST MARKET SINCE 1987. WHERE TO FROM HERE?

APRIL
2020

NTA
(PRE TAX)^{1, 2}

\$1.243

PERFORMANCE SINCE INCEPTION³

8.0% pa

WEBINAR

OUR UPDATED MANDATE
TARGETING FULLY
FRANKED DIVIDENDS

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It was apt that last month started on April the 1st, April Fool's Day, because that's how the market seems to have performed throughout the month.

Heading into the month, we had just gone through that tumultuous period where Covid first erupted and the markets really swooned, and if you were to bet on it, going into April you would have thought that markets were going to be very weak. As it turned out, April was extremely strong with the S&P 500 posting its strongest month since 1987 which was certainly quite surprising.

In this kind of environment it's very difficult to outperform when markets are both weak and strong.

As investors would recall in March when markets were very weak, the Fund outperformed handsomely, and we are very pleased to say that it outperformed once again in April, delivering well over the Benchmark which is a fantastic result.

We are very proud to have outperformed the weakest market since the Great Depression, and then to have outperformed the strongest market since 1987, and the reason for this was not due to one particular characteristic of our portfolio and I think that's what we're most proud of.

We've always said that the process that we follow is about being diversified, and not taking a single 'bet' that will make us or break us, and that has been the case. So when you look at the attribution for why the Fund outperformed, you'll see a diverse and differentiated range of investment holdings across industries, geographies and market caps.

The commonality in our holdings really is our underlying philosophy.

- highly cash flow generative businesses
- that are growing
- have fortress-like balance sheets
- and have very strong management teams.

There are a few reasons why companies like this would outperform.

1. in down markets you do not want debt, and so that obviously helps
2. people are willing to pay for growth, so having growth companies makes a difference.

However, if you pay too much the growth is all capitalized in the price, so focusing on valuation is also very important.

Being diversified across these types of businesses has proven to work for the long term, and we have seen this over the past five years since we launched and we're very pleased with that.

Another factor that contributed to the performance was our decision to hedge some of the Aussie dollar exposure when the Aussie dollar really collapsed. We have always stated that our FX management policy is to hedge the US dollar exposure when it gets to unreasonable levels, or if it goes through stop losses, and we believe that 57cents was an unreasonable level.

It is not easy to do these things.

When the Aussie dollar collapses like that we are making money from our US dollar exposure and the whole world starts writing articles about how you *don't* want to be invested in Aussie dollars and you *do* want to be in U.S. dollars. At such times it can be very difficult to do something so against the grain, and when we were really tested to see how we would react, under the leadership of our CIO, we stuck to our process.

The hedging of the US dollar, whilst it contributed, was not the key driver of performance though. The key driver was the stocks. But it does demonstrate that we adhere to our process, and the process generally works, and has worked over the past 5 years.

That's the past.

Now to the future.

So that's all in the past, and whilst it's great when you do well in the past, now we've got to look forward to where we're going in the future.

As we look at our portfolio, we are very pleased with it. It's very well balanced. We've got all the types of companies we want. There's no single bet that's going to make us or break us.

Looking forward, we're very concerned with the way markets have reacted, and a lot of our stocks are already reaching prices where we have decided it's time to sell some of them. The market seems to be betting on a V-shaped recovery, which means that after dropping precipitously (as in the left line of the 'V'), economies are going to rebound very quickly. We think on the basis of probabilities, that's very unlikely to be the case. We think this market's taking the elevator down, and we're going to have to take the stairs back up.

There's a lot of damage in the broader economy and what we are seeing in economic data just does not correspond with what's happening to the markets.

We've got worldwide unemployment that is certainly heading to record rates. In fact, the unemployment numbers don't tell the whole story because governments are paying companies (effectively) not to fire people.

When you offer small businesses loans, and say you don't have to repay the loans if you don't let go of your staff, of course small businesses hold on to their staff.

They've got to hold on to them till the second half of this year and then, despite the fact that we are seeing eye-watering unemployment numbers, numbers that are going above 10% in the US, and are going to be all-time records, we still think there could be worse to come.

We've seen GDP drop by over 4% in the US, that's just the start of things to come. Most economic experts are predicting GDP will decline by over 30% in the second quarter. These are just astronomical numbers we have not seen certainly in most people's lifetime. These are numbers that are often worse than the Great Depression, *so they matter*. To think that the economy can rebound very quickly from that is very naive in our opinion.

Now the market knows a lot of this, and the market's effectively saying "yes, we get it, the second quarter is going to be bad, but we expect the recovery to happen in the third quarter, and we think that's been priced into the stocks."

That begs the question, what happens if there isn't a recovery in the third quarter?

What happens if that's the quarter when these companies that couldn't let go of staff previously, now do so? What happens if that's the quarter where credit card companies, and mortgage lending companies, who have allowed their borrower's some forbearance not to repay, decide that comes to an end? What happens if there's a second wave in the virus?

These are all realistic possibilities investors have to keep in mind, and we've certainly got them in mind.

We do NOT want to be doom and gloom, because the world will get through this, and there are some fantastic businesses out there that we really do want to own, but we will only buy them at the right price, and we're waiting for them.

So at the moment, we're about 88% invested. We like being invested. We are paid to be invested. However, we are letting go of some of the more expensive stocks that have rebounded violently since the turnaround started towards the end of March, and we're now looking towards the third phase of this virus where the markets likely drop again, and we will be there to scoop up the investments to try and make continued gains for our investors.

So, in summary, we're very pleased with how the Fund has performed, it's great to also see that we've done it while sticking to our process.

We are now preparing for the next wave, and will be ready to invest in stocks if that wave comes and, if it doesn't, we've still got a nice healthy portfolio that we believe will generate good returns.




















A special mention to our team who work around the clock from home, and submit investment reports daily for us to follow. Everything's working very well, and we are very comfortable with the new work changes.

We hope May is similar to April in the significance of the symbolism of its 1st day. We all know April Fool's Day. May Day is an ancient festival of Spring in many European cultures where people go out and celebrate, and we hope that there is a responsible pullback in the amount of time people have to stay locked up in their homes, and there can also be time to celebrate.

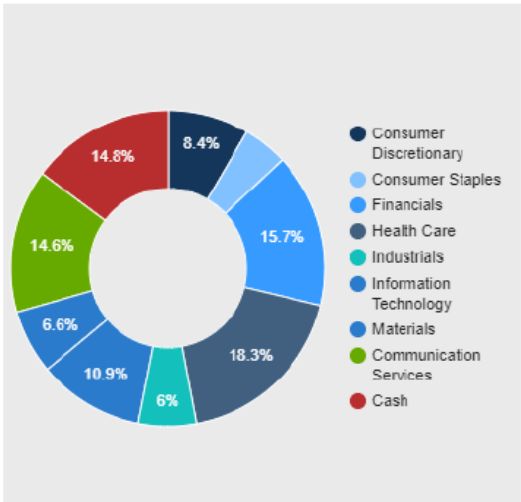
PORTFOLIO PERFORMANCE
NET PERFORMANCE FOR PERIODS ENDING 30 APRIL 2020¹

	1 MONTH	1 YEAR	SINCE INCEPTION P.A. ²
Fund	5.0%	9.1%	8.0%
Benchmark	3.7%	3.2%	7.3%

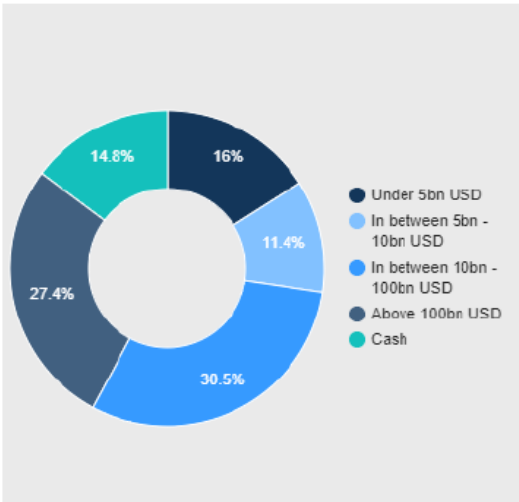
TOP HOLDINGS (ALPHABETICALLY)

	Alibaba Group	 China	Information Technology
	Charter Communications Inc	 United States	Communication Services
	Deutsche Boerse	 Germany	Financials
	Flow Traders	 Netherlands	Financials
	Medtronic	 United States	Health Care
	Mowi ASA	 Norway	Consumer Staples
	Rakuten Inc	 Japan	Consumer Discretionary
	Tencent Holdings	 China	Communication Services
	Thermo Fisher Scientific	 United States	Health Care
	UnitedHealth Group Inc	 United States	Health Care

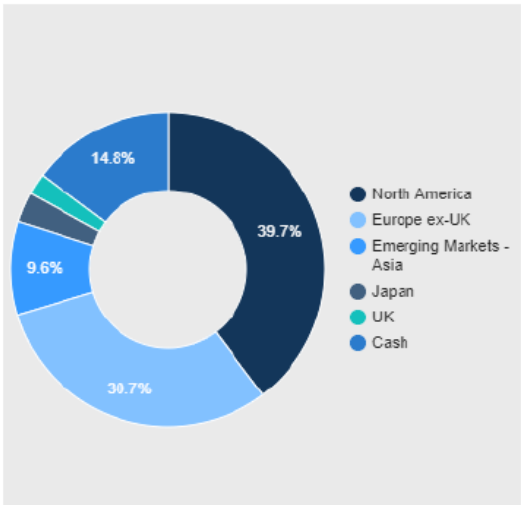
SECTOR BREAKDOWN



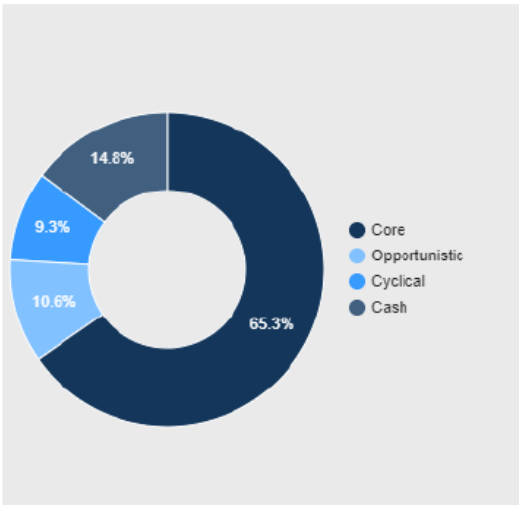
CAPITALISATION BREAKDOWN



REGION BREAKDOWN



SEGMENT



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\$ 1.225
NTA PRE TAX **	A\$ 1.243
PRICE CLOSE **	A\$ 0.995
UNITS ON ISSUE **	254.13m
PREMIUM/DISCOUNT TO PRE- TAX NTA **	-19.9%
DRP	Yes

ASX: PIA

PENGANA INTERNATIONAL EQUITIES LIMITED

ACN 107 462 966
MANAGED BY
PENGANA INVESTMENT MANAGEMENT LIMITED
PART OF THE PENGANA CAPITAL GROUP
AFSL 219462

Authorised by: Paula Ferrao, Company Secretary.

PENGANA.COM/PIA

CLIENT SERVICE
T: +61 2 8524 9900
E: clientservice@pengana.com

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\$.

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