

PENGANA INTERNATIONAL EQUITIES LIMITED (ASX: PIA)

DESCRIPTION

Pengana International Equities Limited (trading on the ASX as PIA) is the largest international ethical Listed Investment Company ("LIC") on the ASX, that exists to provide shareholders with capital growth as well as regular, reliable, and fully franked dividends.

The strategy aims to generate superior risk-adjusted returns, through investing in an actively managed portfolio of global companies that meet the team's high quality and durable growth criteria at reasonable prices. A robust ethical framework provides an added layer of risk mitigation.

These companies are identified through the conduct of fundamental research, with a long-term, global perspective, and must exhibit the following four key investment criteria: competitive advantages, quality management, financial strength, and sustainable growth potential.

STATISTICAL DATA

VOLATILITY³ 11.4%

NUMBER OF STOCKS 61

BETA⁴ 0.83

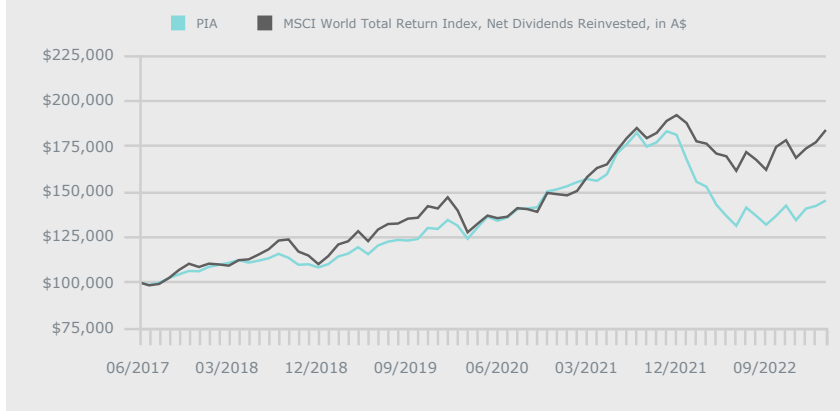
PERFORMANCE TABLE

NET PERFORMANCE FOR PERIODS ENDING 31 Mar 2023¹

	1M	1Y	3Y	Pengana SI July 2017 ¹
(ASX: PIA)	2.1%	-5%	5.4%	6.7%
Index ²	3.8%	4.3%	13%	11.2%

PERFORMANCE CHART

NET PERFORMANCE SINCE INCEPTION²



TOP HOLDINGS (ALPHABETICALLY)

Please note, as at the date of this report (28 February 2023), the top 10 holdings included positions in Silicon Valley Bank and First Republic Bank. Due to recent events, these 2 positions have been removed from the top 10 holdings shown below and replaced with a more indicative view of updated top 10 holdings for the portfolio. Full commentary will be covered in the March report.

Alphabet Inc	Communication Services
AMETEK Inc	Industrials
Bank Central Asia Tbk PT	Financials
Deere & Co	Industrials
Meta Platforms Inc	Communication Services
Microsoft	Information Technology
Schneider Electric SE	Industrials
Synopsys Inc	Information Technology
UnitedHealth Group Inc	Health Care
Vertex Pharmaceuticals Inc	Health Care

SECTOR BREAKDOWN

Consumer Discretionary	5.5%
Consumer Staples	3.5%
Financials	12.1%
Health Care	20.9%
Industrials	19.7%
Information Technology	22.8%
Real Estate	0.5%
Communication Services	10.9%
Cash	4%

CAPITALISATION BREAKDOWN

Under 5bn USD	1.7%
In between 5bn - 10bn USD	1.2%
In between 10bn - 50bn USD	24.1%
In between 50bn - 150bn USD	31.3%
In between 150bn - 500bn USD	25%
Above 500bn USD	12.7%
Cash	4%

REGION BREAKDOWN

North America	59.1%
Europe ex-UK	20.8%
Emerging Markets	9.7%
Japan	3%
UK	2.1%
Asia Pacific ex-Japan	1.2%
Cash	4%

MARCH REPORT

COMMENTARY

- Global share markets strengthened in March, led by large US tech stocks, but offset by weakness in the banking sector
- Australian dollar weakness supported share market returns in AUD terms
- The Portfolio returned 2.1% in March, while the benchmark returned 3.8%

Market Review

Global equity markets rose in March, as investors grew more confident that interest rates would soon reach a peak. The MSCI World Total Return Index AUD returned 3.8% during the month. Share markets increased in all regions, despite the elevated stress in the banking industry across global financial centres and continued interest rate hikes by central banks.

Information technology and the tech-like communication services sectors made the strongest returns during March. Financials was the weakest sector by far, with real estate and energy also underperforming during the month.

Japan and the tech-heavy US were the strongest share markets, while stocks in the Pacific ex-Japan region underperformed the broader global market.

Since the start of this year, growth stocks have outperformed value, especially in the US market. This has been largely driven by the strong returns of a relatively small number of the largest technology stocks. Share prices of higher-quality companies across global markets – those with more stable returns and lower debt levels – in which the Portfolio tends to invest, have also outperformed.

Portfolio Comment

While the Portfolio's focus on quality growth stocks strongly supported investment returns in March, relative returns were impacted by stock-specific issues in the US banking sector.

The Portfolio's underperformance was mainly due to stock weakness in financials (SVB Financial Group and First Republic Bank). This was somewhat offset by strong stock performance in communication services (Meta Platforms and Alphabet), health care (Vertex Pharmaceuticals and Illumina) and information technology (Salesforce). Overweight positions in communications and information technology and underweight positions in financials, energy, real estate and materials also contributed to relative returns in March.

The Portfolio manager had maintained a position in **SVB Financial Group (SVB)** for more than a decade. It was considered to be a strong business, with sound liquidity and competent management, which managed risk in a considered manner. The company provided exposure to a niche area of banking that focused on the "innovation economy" of the venture capital ecosystem and its portfolio companies.

However, risks concerning the bank's asset-liability duration mismatch and the industry concentration of depositors proved to be greater than had been expected. An unsuccessful recapitalisation brought a loss of investor confidence, which led to a rapid withdrawal of customer deposits that the bank was unable to survive. Regulators placed SVB into receivership in mid-March, causing a total loss of the Portfolio's position in SVB.

The failure impacted other US regional banks, including **First Republic Bank** (FRB) in which the Portfolio held a position. FRB experienced some deposit outflows – despite a different business model and support from Federal agencies and the wider banking community – leading to it significantly underperforming. The position was subsequently sold. The holdings in the two banking groups were significant detractors from relative returns during March.

The Portfolio took advantage of the March rebound in share prices of high-priced growth companies to exit some of its more expensively valued and higher volatility holdings.

In March the Portfolio sold **Align Technology** which makes Invisalign clear aligners, online marketplace **Etsy** and **Verisk**, a data provider to the insurance market.

This capital was reinvested in more reasonably priced and less volatile stocks including **AbbVie**. This is a US drugmaker best known for Humira, a medicine which is used to treat a variety of autoimmune diseases. AbbVie is building upon its maturing blockbuster drug Humira by expanding its stable of autoimmune-disorder treatments. It has launched new products such as Skyrizi and Rinvoq, which have been well received and should support continued earnings growth.

Separately, the slowdown in venture capital funding is expected to foster increased collaboration between biotechnology companies with promising, early-stage pipelines and established large pharmaceutical companies. This may allow AbbVie to supplement its own drug development pipeline at cheaper valuation levels than biotech companies have commanded in recent years.

Meta Platforms, the US-based parent of Facebook, Instagram and WhatsApp outperformed the market when it continued to experience resilient user engagement levels. It also benefitted from its pledge to boost efficiency through a hiring freeze and laying off more staff. The company also announced a reduction in capital expenditure and increased share repurchases.

The overweight position in French cosmetics company **L'Oréal** contributed to relative returns when it outperformed the market. It announced organic revenue growth which outpaced that of the wider global beauty market in 2022.

FEATURES

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
MANDATED	1 July 2017
BENCHMARK	MSCI World Total Return Index, Net Dividend Reinvested, in A\$
NTA POST TAX **	A\$ 1.159
NTA PRE TAX **	A\$ 1.171
PRICE CLOSE **	A\$ 0.900
SHARES ON ISSUE **	256.72m
DRP **	Yes

FUND MANAGERS



Peter Baughan
Portfolio Manager



Jingyi Li
Portfolio Manager

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. Please refer to the PDS for information regarding risks. 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 mandated in the table above refers to the movement in net assets per share since the new mandate adopted on 1 July 2017. The index is the MSCI World Total Return Index, Net Dividends Reinvested, in A\$. Annualised Standard Deviation since mandated

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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Authorised by: Paula Ferrao, Company Secretary.