

## PENGANA AXIOM INTERNATIONAL ETHICAL FUND

### DESCRIPTION

The Pengana Axiom International Ethical Fund invests in companies that are dynamically growing and changing for the better, more rapidly than generally expected and where the positive changes are not yet reflected in expectations or valuation.

The Global Equity Strategy seeks dynamic growth by concentrating its investments in global developed markets, and may also invest in companies located in emerging markets.

The investment manager is Axiom Investors, a Connecticut-based global equity fund manager formed in 1998 with over US\$19billion in assets under Management.

### STATISTICAL DATA

VOLATILITY<sup>7</sup> 10.8%

NUMBER OF STOCKS 48

BETA<sup>8</sup> 0.77

### PERFORMANCE TABLE

NET PERFORMANCE FOR PERIODS ENDING 31 Jan 2022<sup>1</sup>

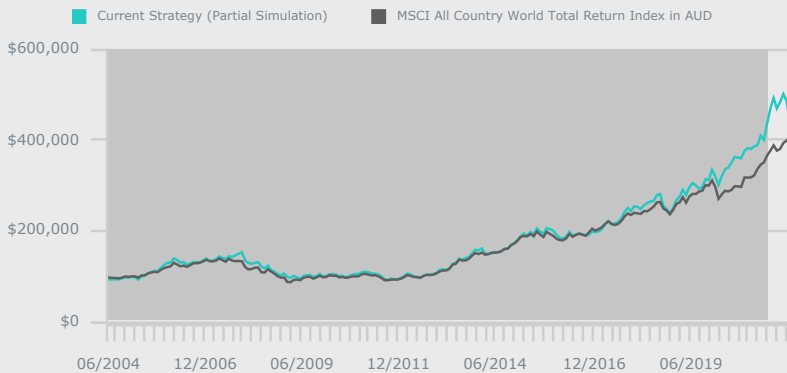
#### Pengana Axiom International Ethical Fund

The Class was established in 1 July 2017. From June 2021 Axiom was appointed as the investment manager for the Fund.

	1M	Since Axiom Appointed June 2021 <sup>1</sup>	1Y	3Y	Since Fund Inception July 2017 <sup>2</sup>	5Y	Since Strategy Inception July 2004 <sup>3</sup>
<b>Fund: APIR (HOW002AU)<sup>1,2</sup></b> Managed by Axiom from June 2021	-9.4%	10.0%	11.3%	16.3%	12.8%		
<b>Current Strategy (Partial Simulation)<sup>4</sup></b> Axiom Global Equity Strategy			15.7%	20.7%	17.0%	17.5%	8.8%
<b>Index<sup>5</sup></b>	-1.9%	11.7%	23.3%	16.7%	13.9%	14.3%	8.1%

### PERFORMANCE CHART

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



### TOP HOLDINGS (ALPHABETICALLY)

Adobe Inc	Information Technology
Alphabet Inc	Communication Services
Amazon	Consumer Discretionary
Asml Holdings	Information Technology
Danaher	Health Care
Estee Lauder Cos Inc	Consumer Staples
Microsoft	Information Technology
ServiceNow Inc	Information Technology
TE Connectivity	Information Technology
Tesla Inc	Consumer Discretionary

### SECTOR BREAKDOWN

Consumer Discretionary	19.5%
Consumer Staples	2.8%
Financials	4.5%
Health Care	12%
Industrials	11%
Information Technology	37.6%
Communication Services	11.4%
Cash	1.1%

### CAPITALISATION BREAKDOWN

Under 5bn USD	4.1%
In between 10bn - 50bn USD	21.3%
In between 50bn - 150bn USD	28.4%
In between 150bn - 500bn USD	19.2%
Above 500bn USD	25.8%
Cash	1.1%

### REGION BREAKDOWN

North America	73.2%
Europe ex-UK	16%
Emerging Markets - Asia	2.2%
Japan	6.5%
Asia Pacific ex-Japan	1.1%
Cash	1.1%

## WHEN SENTIMENT SHIFTS, FUNDAMENTALS CAN GET OVERLOOKED

### COMMENTARY

During a volatile January 2022, the Pengana Axiom International Ethical Fund ("Fund") underperformed the benchmark, the MSCI All Country World Index ("Index"), in net AUD terms, falling -9.4% while the index declined -1.9%

The Fund underperformed as value stocks showed continued strength from year-end due to inflation and increasingly restrictive global monetary and fiscal policy.

While strong global growth continues, some macroeconomic leading indicators that we track daily such as PMI New Orders are showing signs of moderating. This, coupled with policy tightening has caused a flattening of the yield curve. While these factors will continue to hurt our dynamic growth names in the short term, we see signs that the market is increasingly discounting these issues, so we are continuing our disciplined focus on dynamic growth as positive EPS revisions should continue to be a factor that drives outperformance at this point in the economic cycle.

Relative underperformance was driven by allocation and stock selection in information technology, health care and industrials as well as our current underweight to energy and financials. The Fund continues to be overweight information technology, consumer discretionary, communication services and industrials and underweight financials, materials, consumer staples and energy.

At the stock level, **ASML**, **Advanced Micro Devices**, and **Adyen** all announced strong financial results with positive outlook statements. Despite this strong operational performance their share prices fell and were the largest relative detractors from performance. ASML reported solid 4Q21 results where key metrics such as tool orders, gross margins, and free cash flow (FCF) showed positive surprises with 2022 revenue guidance also above consensus expectations, forecast to grow by 22% in 2022. Despite this, concerns over the broader semiconductor cycle have weighed on the shares. We added meaningfully to our positions in **Taiwan Semiconductor** during a period of share price weakness. **Visa**, **Deere & Co**, and **NVIDIA** were among the top relative performers in January. Visa reported strong results as global economies continue to re-open despite the Omicron variant. Total and cross-border payment volumes handily surpassed expectations and accelerated meaningfully compared to the prior quarter.

We have allocated capital away from information technology holdings, where concerns around tough growth comparisons could cause disappointing near-term guidance, and into our financial holdings that exhibit dynamic group attributes and benefit from higher interest rates. We reduced positions in **Block** and **Idexx Labs** and we exited the position in **RingCentral**. While RingCentral continues to show strong fundamentals, competition concerns in the communications software marketplace have caused a severe contraction in valuation multiples against our expectations.

We added meaningfully to our positions in **Taiwan Semiconductor**, **Visa**, and **TE Connectivity**. Taiwan Semiconductor provided positive 2022 guidance for the global semiconductor foundry industry and their leadership position therein. We have not initiated any new positions in 2022.

During periods of heightened volatility, particularly when expectations shift drastically, it is not unusual for markets to ignore company fundamentals and sell down broad swaths of assets without fully considering the business fundamentals. Our past experience indicates that although such periods may be extremely painful (and it's never clear how long they will last), they present excellent opportunities to concentrate the portfolio in our best ideas at

compelling valuations.

We remain upbeat and confident in our continued ability to identify companies that are dynamically growing or improving more rapidly than expected, where these improvements are not reflected in valuations. Our objective remains intact to compound capital over the long term by taking advantage of valuation and pricing anomalies.

### Fee Reduction plan

Since the 2017 merger of Pengana Capital Group and Hunter Hall, the management fees for the funds now known as the Pengana Axiom International Ethical Fund (APIR: HOW0002AU) and the Pengana Axiom International Ethical Fund (Hedged) (APIR: HHA0002AU) ("Funds") have been significantly reduced and both the performance fees and the expense recovery eliminated.

Our intention is now to further share the benefit of any increase in assets under management, and the profitability of these Funds, with our investors as these Funds start to benefit from economies of scale.

As at the 31<sup>st</sup> of January 2022, the combined assets of these two Funds was approximately \$437m. When the Funds' combined assets exceed \$500m at an assessment date (28<sup>th</sup> February and 31<sup>st</sup> August each year), we will reduce the management fee for both Funds by 10bps, and continue to reduce the management fee by 10bps for each additional \$100m in combined assets under management at each assessment date, until such time as the management fee is reduced to 0.95%.

A worked example of this is illustrated below.

The Funds' combined assets under management will be assessed on the 28<sup>th</sup> of February and the 31<sup>st</sup> of August each year and should the increase in assets exceed the threshold for adjustment, the management fee reduction will be implemented as soon as practically possible thereafter. Once a reduction to the management fee has been implemented, the reduction will remain in place even if assets subsequently fall back below an adjustment threshold.

Combined Assets Under Management on assessment date	Proposed Management Fee
A\$500m	1.25%
A\$600m	1.15%
A\$700m	1.05%
A\$800m	0.95%

FEATURES	
APIR CODE	HOW0002AU
REDEMPTION PRICE	A\$ 2.9558
FEES *	Management Fee: 1.35% p.a
MINIMUM INITIAL INVESTMENT	\$10,000
FUM AT MONTH END	A\$ 350.09m
STRATEGY INCEPTION DATE	1 July 2004
BENCHMARK	MSCI All Country World Total Return Index (net, AUD)

## FUND MANAGERS



**Bradley Amoils**  
Managing Director/Portfolio Manager



**Andrew Jacobson**  
CEO/Chief Investment Officer

Prior to June 2021, the Axiom Global Equity Strategy performance (shown in the shaded area) includes the strategy performance simulated by Pengana from the monthly gross returns of the Axiom Global Equity strategy. This simulation was done by: 1) the conversion of US-denominated gross returns to AUD, 2) applying the fee structure of the stated class. The simulation does not include the Pengana ethical screen. From June 2021 the strategy performance is the performance of the Pengana Axiom International Ethical Fund.

1. Axiom was appointed fund manager as of 5 May 2021. June 2021 represents the first full month of Axiom managing the Fund.
2. Inception date 1 July 2017. Figures shown are calculated from the continuous performance of both the current and previous strategies. For performance see row labelled Fund: APIR (HOW0002AU) in the table above which is the continuous performance of both the current and previous strategies.
3. Axiom Global Equity Strategy inception 1 Jul 2004.
4. Prior to June 2021, the Axiom Global Equity Strategy performance (labeled 'Strategy (Partial Simulation)' and shown in the shaded area) includes the strategy performance simulated by Pengana from the monthly gross returns of the Axiom Global Equity strategy. This simulation was done by: 1) the conversion of US-denominated gross returns to AUD, 2) applying the fee structure of the stated class. The simulation does not include the Pengana ethical screen. From June 2021 the strategy performance is the performance of the Pengana Axiom International Ethical Fund.
5. MSCI All Country World Total Return Index in AUD.
6. Performance for periods greater than 12 months are annualised. Net performance figures are shown after all fees and expenses, and assume reinvestment of distributions. No allowance has been made for buy/sell spreads. Past performance is not a reliable indicator of future performance, the value of investments can go up and down.
7. Annualised standard deviation since inception.
8. Relative to the MSCI All Country World Total Return Index in AUD.

\*For further information regarding fees please see the PDS available on our website.

## PENGANA AXIOM INTERNATIONAL ETHICAL FUND

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### PENGANA.COM

Pengana Capital Limited (ABN 30 103 800 568, AFSL 226566) ("Pengana") is the issuer of units in the Pengana Axiom International Ethical Fund (ARSN 093 079 906) (the "Fund"). A product disclosure statement for the Fund is available and can be obtained from our distribution team or website. A person should obtain a copy of the product disclosure statement and should consider the product disclosure statement carefully before deciding whether to acquire, or to continue to hold, or making any other decision in respect of, the units in the Fund. This report was prepared by Pengana and does not contain any investment recommendation or investment advice. This report has been prepared without taking account of any person's objectives, financial situation or needs. Therefore, before acting on any information contained within this report a person should consider the appropriateness of the information, having regard to their objectives, financial situation and needs. Neither Pengana nor its related entities, directors or officers guarantees the performance of, or the repayment of capital or income invested in, the Fund.