MONTHLY REPORT
OCTOBER 2022

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[7] 12.5%	NUMBER OF STOCKS 48	BETA[8] 0.89

PERFORMANCE TABLE

NET PERFORMANCE FOR PERIODS ENDING 31 Oct 2022[1]

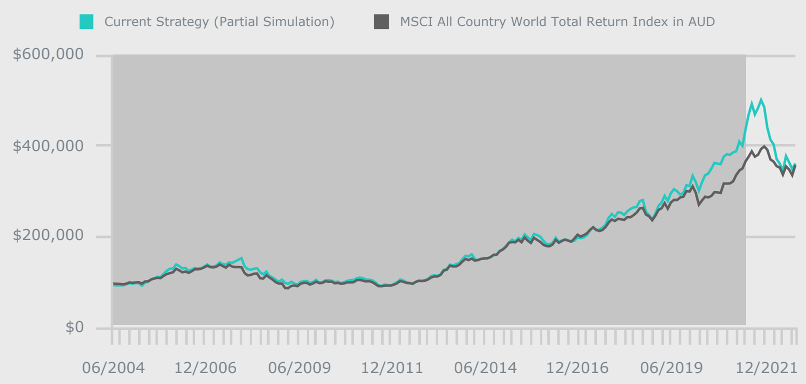
Pengana Axiom International Ethical Fund

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

	1M	1Y	Since Axiom Appointed June 2021[1]	3Y	5Y	Since Fund Inception July 2017[2]	Since Strategy Inception July 2004[3]
Fund: APIR (HOW0002AU)[1,2] Managed by Axiom from June 2021	3.5%	-25.3%	-7.0%	4.5%	6.5%	6.9%	
Current Strategy (Partial Simulation)[4] Axiom Global Equity Strategy				6.8%	8.4%	10.3%	7.2%
Index[5]	6.6%	-6.0%	1.5%	7.5%	9.1%	10.0%	7.2%

PERFORMANCE CHART

NET PERFORMANCE SINCE INCEPTION[2]



TOP HOLDINGS (ALPHABETICALLY)

Amazon	Consumer Discretionary
Danaher	Health Care
Eli Lilly & Co	Health Care
Gartner Inc	Information Technology
Hermes International	Consumer Discretionary
Microsoft	Information Technology
Nestle	Consumer Staples
TE Connectivity	Information Technology
Tesla Inc	Consumer Discretionary
Visa Inc	Information Technology

SECTOR BREAKDOWN

Consumer Discretionary	17.4%
Consumer Staples	9.9%
Financials	4.5%
Health Care	18.7%
Industrials	9.6%
Information Technology	31.2%
Materials	2%
Real Estate	1%
Communication Services	4.4%
Cash	1.3%

CAPITALISATION BREAKDOWN

Under 5bn USD	3.6%
In between 5bn - 10bn USD	1.4%
In between 10bn - 50bn USD	24.3%
In between 50bn - 150bn USD	27.6%
In between 150bn - 500bn USD	23.7%
Above 500bn USD	18.1%
Cash	1.3%

REGION BREAKDOWN

North America	75.3%
Europe ex-UK	16.5%
Emerging Markets - Asia	0.8%
Japan	3.7%
UK	1%
Asia Pacific ex-Japan	1.5%
Cash	1.3%

OCTOBER REPORT

COMMENTARY

- Equity markets strengthened in October
- Some companies delivered strong earnings growth despite the economic slowdown
- The Fund returned 3.5% in October, while the benchmark returned 6.6%

We recently held a Portfolio and Investment Update webinar, along with Q&A for shareholders, which is available below for your review. CPD points are applicable for Australian Financial Planners HERE.

Equity markets bounced back in October, as the MSCI World All Countries Total Return Index AUD (Hedged) returned 6.1%.

During October, the Fund underperformed the benchmark by 3.2%. Global value stocks outperformed growth by 5.1%, reflecting fears that interest rates would rise higher and remain elevated for longer to control inflation, which remains stubbornly high.

The underperformance of growth companies was driven by accelerating global inflation. The US core personal consumption expenditure price index, which excludes more volatile food and energy, rose 5.1% year-on-year in September, up from the 4.9% August increase. German core consumer price inflation rose 5.0% year-on-year in October compared to 4.7% in August.

Reasonably strong US labour market data probably helped persuade the US Federal Reserve (Fed) to raise rates as expected by 0.75% to 3.75% – 4.00%, in line with market expectations. It also provided a more "hawkish" commentary, indicating that inflation remains too high.

The Fed now expects the Federal Funds rate will reach a higher peak than had been expected at its prior meeting. Market expectations for the terminal rate are now around 5.20%, some 0.15% – 0.20% higher than before the meeting. This helped drive government bond yields higher in the US and Europe, credit spreads wider and equity markets lower.

The US dollar and commodity prices were generally little changed during the month. The price of Brent oil increased 8% following four consecutive months of falls; this came after the OPEC+ decision to cut headline production levels and ongoing geo-political tensions.

More positive was the continued easing in the extremely high prices of European natural gas indicators, which fell by 30% – 80% month-on-month. This reflected high storage levels across the region which continue to increase amidst mild seasonal weather. However, it will take time for lower natural gas prices to show up in European inflation data.

October economic data was generally weaker. Eurozone and China Composite Purchasing Managers' Indicators (PMIs) and US manufacturing new orders all continued to show contraction. Ongoing COVID-related lockdowns in China increased in October following the National Day holiday which contributed further to domestic economic pressures.

The Fund retains its focus on dynamic growth stocks as positive revisions to earnings per share (EPS) should continue to drive outperformance, despite the economic uncertainty. The Fund continues to overweight information technology, consumer discretionary (especially companies with exposure to electric vehicles) and health care. It remains underweight financials, energy, and utilities.

Positive stock selection in information technology contributed to relative performance, while the underweight positions in communication services and real estate, which performed strongly, detracted from relative returns. Stock selection in consumer discretionary, industrials, and financials detracted from relative returns.

The overweight positions in **Visa** and **Ameriprise Financial,** and the zero weighting to **Meta Platforms** made the strongest contributions to relative performance, while positions in **Tesla**, **Danaher** and **Estee Lauder** were the most significant detractors.

US-based global payments platform Visa reported strong results with revenue and earnings 3% ahead of consensus expectations. The initial 2023 guidance for net revenue growth in constant currency terms was modestly ahead of consensus expectations. This went some way to assuaging investor concerns that revenue growth was slowing due to the deteriorating economic outlook.

Similarly, **Ameriprise Financial,** the US-based diversified financial services group also reported solid results due to higher interest rates and better wealth management asset flows.

US-based social media technology group Meta Platforms represents a 0.41% weighting in the benchmark. It underperformed significantly during October following weaker guidance concerning 2023 operating expenses and capital spending.

Tesla, the US-based electric vehicle company underperformed the market following modestly disappointing earnings results. This was due to a mix of lower delivery volumes and higher logistics and plant ramp-up costs. It provided guidance on delivery targets which were ahead of market expectations.

The US-based science and technology group Danaher reported solid third-quarter earnings results. However, it underperformed the market following commentary regarding inventory issues in its bioprocessing segment. Customers have built up stockpiles due to fears of COVID-related logistical issues, which has impacted short-term demand.

Estee Lauder, the US-based multinational cosmetics company underperformed in October due to reports of weak cosmetic sales in China. These fell 3.1% year-on-year in September, only marginally improving on the 6.4% contraction in August. Analysis of weakening data points led to the Fund's position in Estee Lauder being one of the largest reductions in October. This sale mitigated the stock's underperformance when the company confirmed these trends in its earnings report published in early November, which resulted in further share price weakness.

The Fund's sector mix was broadly unchanged during the month, with adjustments driven by the initiation of new positions and an exit. The overweight exposure to healthcare and the underweight exposure to financials both increased. ServiceNow, Generac, and Estee Lauder were the Fund's largest position reductions during October.

Microsoft reported weaker earnings results following a slowdown in enterprise cloud software spending. This led to the Fund reducing its position in US-based software company ServiceNow in advance of its quarterly earnings report.

Following an earlier profit warning, the small remaining position in US-based energy technology group Generac was reduced upon concerns of a slowdown in demand for residential back-up generators. The company subsequently reported weaker third quarter earnings results and downgraded its guidance for the remainder of 2022.

The Fund's largest position increases were Hershey and Canadian National Railway (CNR). US-based multinational chocolate manufacturer Hershey's core confectionary business displays defensive properties, pricing power and demand inelasticity; these continue to drive strong improvements in earnings expectations.

CNR, the Canadian freight railway operator, reported strong September quarter results during October, announcing a better earnings yield and an improving operating ratio. Its 2022 earnings guidance was revised upwards, driven by higher volumes and improved cost management.

The Fund established new positions in Elevance Health and Rentokil Initial, and exited its position in SVB Financial Group, during October.

US health insurance company Elevance Health is a leading US health insurance provider with exposure to commercial and government markets, including Medicaid and Medicare. Its insured base remains underpenetrated compared to peers, reflecting the potential to up-sell and cross-sell, which can bring increased profitability in excess of consensus expectations. The company is valued by the market at a material price discount to the industry leader UnitedHealthcare. This discount is expected to narrow over time upon continued strong execution of the company strategy and improving returns.

UK-based business services group Rentokil Initial provides pest control and hygiene products and services predominantly in North America and Europe. This is a steady growth, high-return business that is relatively immune from the economic cycle. These characteristics are made increasingly attractive by expectations that the integration of Terminix will create value ahead of targets. This will result in accelerating earnings growth and margin expansion that exceed consensus expectations.

The Fund exited its position in the US technology-focussed banking group SVB Financial upon expectations of weaker profitability following the slowdown in the venture capital (VC) markets. Lower VC funding volumes are driving deposit outflows, requiring higher interest rates to be paid on customer deposits which is reducing net interest margins. Higher rates will continue to impact VC markets over the short and medium-term, which led the stock to be sold.

During October, three positions, Eli Lily, Iqvia, and Samsonite received MSCI ESG rating upgrades, while no positions were downgraded.

US pharmaceutical company Eli Lily was upgraded from A to AA following improvements in both its board structure and corporate behaviour. The company improved disclosures concerning its whistle blower protection policies that prevent retaliation against complainants.

US life science group IQVIA was upgraded from BBB to A upon improvements to key accounting metrics and the board election process. The company received no votes against board nominations at the 2022 Annual General Meeting, which was seen as evidence of shareholder approval.

US luggage manufacturer and retailer Samsonite was also upgraded from BBB to A following enhancements to governance practices such as improvements in accounting metrics. The appointment of two female independent directors brings greater gender diversity to the board and a majority of independent Directors should allow better oversight of management.

FEATURES

APIR CODE	HOW0002AU
REDEMPTION PRICE	A$ 2.4295
FEES *	Management Fee: 1.35% p.a
MINIMUM INITIAL INVESTMENT	$10,000
FUM AT MONTH END	A$ 277.75m
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. 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.
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.

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PENGANA CAPITAL LIMITED

ABN 30 103 800 568

AFSL 226566

CLIENT SERVICE

T: +61 2 8524 9900

F: +61 2 8524 9901

E: clientservice@pengana.com

PENGANA CAPITAL GROUP

PENGANA.COM