

AUSTRALIAN
RESEARCH
INDEPENDENT INVESTMENT RESEARCH

**Pengana International Equities
Limited (ASX: PIA)**

July 2021

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- 2) Our analyst has independence from the firm's management, as in, management/ sales team cannot influence the research in any way;
- 3) Our research does not provide a recommendation, in that, we do not provide a "Buy, Sell or Hold" on any stocks. This is left to the Adviser who knows their client and the individual portfolio of the client.
- 4) Our research process for valuation is usually more conservative than what is adopted in Broking firms in general sense. Our firm has a conservative bias on assumptions provided by management as compared to Broking firms.
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- 6) All staff are not allowed to trade in any stock or accept stock options before, during and after (for a period of 6 weeks) the research process.

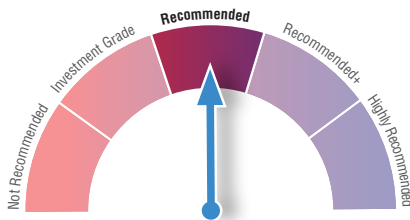
For more information regarding our services please refer to our website www.independentresearch.com.au.

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Note: This report is based on information provided by the Manager as at May 2021.

Rating



Key Investment Information (as at 30 June 2021)

ASX Code	PIA
Share Price (\$)	1.32
Pre-tax NTA (\$)	1.4663
Post-tax NTA (\$)	1.4174
Shares on Issue (m)	255.1
Market Cap (\$m)	336.7
Premium/Discount	-10.0%
Dividend Yield	4.7%
Listing Date	March 2004
Investment Manager	Pengana Investment Management
Portfolio Manager	Harding Loevner
Investment Structure	LIC
Fees:	
Management Fee (p.a)	1.23%
Performance Fee	15.38%
Performance Fee Hurdle	MSCI World Total Return Index, Net Dividends Reinvested, AUD

Key Exposure

Underlying Exposure	Portfolio of quality-growth global equities.
FX Exposure	The Company has direct FX exposure given the global nature of the investment mandate. The portfolio will be unhedged and therefore the value of the portfolio will be impacted by movements in the relevant currency rates.

The investment opinion in this report is current as at the date of publication. Investors and advisers should be aware that over time the circumstances of the issuer and/or product may change which may affect our investment opinion.

COMPANY SUMMARY

Pengana International Equities Limited (ASX: PIA) is a Listed Investment Company (LIC) that provides exposure to an actively managed portfolio of global ethical stocks. The Investment Manager of the portfolio is Pengana Investment Management Limited, a wholly owned subsidiary of Pengana Capital Group Limited (ASX: PCG). In March 2021, the two Portfolio Managers exited the business which resulted in the Investment Manager undertaking a search for a replacement manager to manage the portfolio. The search was swift and on 10 May 2021, the Company announced that the Investment Manager had appointed Harding Loevner as the Manager of the portfolio. Harding Loevner are a New Jersey based global equities manager that was established in 1989 and has over US\$84b in AUM. The portfolio will now be managed using the Harding Loevner investment style and philosophy with the addition of the PIA ethical screen (see Investment Process Section for further detail regarding the ethical screen).

The Company will seek to generate superior risk-adjusted returns to the benchmark index through a portfolio of stocks that meet the Manager's high quality and sustainable growth investment criteria. The Manager has a fundamental bottom-up investment approach. In addition to capital growth, the Company will seek to provide a regular dividend, franked to the maximum extent possible. The Company moved from a semi-annual to quarterly dividend in October 2020. The management and performances fees remain unchanged.

INVESTOR SUITABILITY

An investment in PIA is suitable for those investors seeking access to a global portfolio of ethical stocks with a company structure and managed by a global equities manager with long history of generating superior risk-adjusted returns to the benchmark index. The investment strategy and style of the Manager has resulted in the Manager's global equity strategy providing capital preservation in down markets with the strategy outperforming the benchmark index on a rolling 5-year net return basis in 93.6% of the negative market periods from December 1989 to 30 June 2021. As such, PIA is suitable for those seeking access to a portfolio that is likely to provide an element of capital protection in down markets. The quality nature of the portfolio means investors should be prepared to give up some upside in strong markets to receive the downside protection. Investors should be comfortable with foreign currency exposure given the foreign currency exposure will be unhedged. The company structure allows for PIA to pay a regular dividend stream, reserving capital gains for future dividend payments. Further to this, the company structure provides the ability for PIA to pay franked dividends. This compares to a trust structure, in which distributions cannot be franked.

RECOMMENDATION

Independent Investment Research (IIR) has reaffirmed its **Recommended** rating for Pengana International Equities Limited (ASX: PIA). The Investment Manager of PIA, Pengana Investment Management Limited, recently appointed Harding Loevner as the Manager of the portfolio. Harding Loevner are an experienced and well resourced global equity manager with over US\$84b AUM. Harding Loevner has a long history of generating strong risk-adjusted returns and providing investors protection in down markets, making them well placed to deliver on the Company's objective of delivering superior risk-adjusted returns to the benchmark index. Harding Loevner has a disciplined and repeatable investment process with a rewards system in which analysts are rewarded for their views and analysis and not beholden on the decisions of the Portfolio Manager's. Further to this the investment team is stable. Shareholders have experienced significant manager turbulence in recent years with a number of changes to the manager of the portfolio resulting in changes to the investment style and philosophy. We view the appointment of Harding Loevner as a positive for shareholders, however, we will be seeking for the relationship to be solidified so shareholders avoid further volatility resulting from manager disruptions.

SWOT

Strengths

- ◆ The LIC structure provides the Manager “captive capital” with which it can execute its investment strategy without the need to meet redemptions with liquidity provided through the secondary market.
- ◆ The Manager has a structured and disciplined investment process that has been employed successfully to deliver investment objectives.
- ◆ The Manager is well resourced with a history of stability in the investment team and strong succession planning through the use of “Paper Portfolios”; whereby other Portfolio Managers maintain model portfolios for the mandate to ensure they have a thorough understanding and are available to takeover in the event one of the Portfolio Manager’s needs to step down from the position.
- ◆ ESG is integrated into all stages of the investment process and has been since 1994.
- ◆ The Company provides weekly NTA updates, providing transparency with respect to the value of the portfolio. Increased frequency of the NTA provides greater transparency for investors and can assist with managing the discount to NTA.
- ◆ The Company moved to paying a quarterly dividend for FY21, increasing the frequency of the dividend from semi-annual.
- ◆ The Company has paid an attractive dividend yield given the global portfolio exposure.
- ◆ While concentrated compared to the benchmark index, the portfolio is relatively diversified. Therefore the impact of a significant decline in a single investment will have a limited impact on the portfolio performance.
- ◆ The portfolio is liquid with the Manager stipulating the current portfolio could be exited within five days without causing significant disruption to the market.

Weaknesses

- ◆ There has been a number of disruptions for shareholders through changes to the manager of the portfolio and the strategy in recent years. Pengana Investment Management Limited took over the management of the portfolio after the merger with Hunter Hall International Limited in 2017. Post the merger, Jordan Cvetanovski and Steven Glass took on the role of managing the portfolio with a team of analysts as support. With this came a new investment strategy and a repositioning of the portfolio. With the appointment of the new Manager (Harding Lovener) in May 2021, another change in strategy and repositioning of the portfolio has occurred.
- ◆ The Company has largely traded at a discount to pre-tax NTA, which has been a drawback for shareholders. We attribute the change in management as a key contributor to the recent expansion of the discount.

Opportunities

- ◆ The Company provides investors exposure to an ethically managed global portfolio of stocks through a Listed Investment Company structure. The company structure provides the benefit of the company being able to pay franked dividends. This is a differentiating factor to ETFs and ETMFs which cannot pay out franked distributions.
- ◆ PIA provides Australian retail investors the opportunity to access a portfolio managed by Harding Loevner, a global equity manager that has a long history of providing strong risk-adjusted returns compared to the global benchmark.

Threats

- ◆ Given the Company invests in global markets, the Company has direct exposure to foreign currency. The Manager does not seek to hedge the currency exposure and therefore the portfolio value will be impacted both positively and negatively by the movements in the Australia dollar to the relevant currency exposures.
- ◆ The Investment Management Agreement (IMA) between the Investment Manager and Harding Loevner has no fixed term. This provides a level of discomfort given the history of manager disruption. Further disruption to the manager of the portfolio will continue to result in enhanced share price volatility and likely expansions to the discount.
- ◆ The Board are making efforts to narrow the discount through increased shareholder communication and increased frequency of dividends. In the event the discount is narrowed, this provides new investors the opportunity to generate capital returns in addition to the returns generated by the portfolio, however in the event the discount remains, shareholders may not be able to realise their investment in line with the value of the portfolio.

NEW MANAGER APPOINTED

The Investment Manager of Pengana International Equities Limited (ASX: PIA), Pengana Investment Management Limited, recently appointed Harding Loevner ("Manager") as the Manager of the PIA portfolio. The new Manager was appointed after the abrupt exit of the two portfolio manager's for PIA earlier this year.

The objective of the Company will remain the same, with the Company seeking to provide investors exposure to an actively managed, ethical portfolio of global securities that provides capital growth and a regular dividend, franked to the maximum extent possible.

The portfolio will be managed using the investment strategy and philosophy of Harding Loevner, however will continue to apply the ethical screens that are currently applied to the PIA portfolio (See Investment Process section for further information on ethical screening).

Harding Loevner seeks to generate superior risk-adjusted returns through investing in companies that meet the team's high quality and durable growth at reasonable prices investment philosophy. The investment philosophy is employed across all investment mandates. The portfolio is managed by two Co-Lead Portfolio Manager's, Peter Baughan and Jingyi Li. The responsibility for investment decisions lies with the Co-Lead Portfolio Manager's with the Manager not using Investment Committees. While there are no Investment Committees, the investment process is collaborative with investment team members able to provide feedback and question the validity of investments. In many ways, the Manager employs an investment approach that was similar to the approach employed by Hunter Hall, in which the responsibility of investments also fell to individuals.

The portfolio has already completed the transition of the portfolio, which the Company has stated was at minimal cost to PIA, making the portfolio in line with the investment philosophy and approach of the new Manager, which differs to the previous Portfolio Manager's. The portfolio will likely be a little more diversified under the new Manager, with the portfolio typically holding 55-75 stocks with exposure to a minimum of 7 sectors. This compares to the previous strategy which looked to hold 30-50 stocks with the portfolio concentrated to the Core holdings of which there were 15-20.

Investment Guidelines Pre and Post Appointment of Harding Loevner

	Investment Guidelines Before Appointment of Harding Loevner	Investment Guidelines After Appointment of Harding Loevner
Number of Holdings	30-50	35-75
Minimum Number of Sectors	na	7
Maximum Exposure to a Single Sector	25% variation from the benchmark	25%
Maximum Exposure to a Single Industry	na	15%
Minimum Number of Markets	20% variation from the benchmark	15
Maximum Exposure to a Single Security	5%	5%
Maximum Cash Holding	20%	10% (typically 3%)

Under the terms of the Investment Management Agreement (IMA) between Pengana Investment Management and Harding Loevner, there is no fixed term for the agreement with either party able to terminate the IMA by giving six months notice. If Pengana Investment Management passes an ordinary resolution to remove Harding Loevner as the Manager then the IMA will be terminated three months after passing the resolution.

The Company currently pays a quarterly dividend, which it seeks to frank to the maximum extent possible. The Company moved from semi-annual to quarterly dividends in October 2020.

The fee structure remains unchanged with the Company paying the Investment Manager a fee of 1.23%p.a and the Investment Manager is eligible for a performance fee of 15.38% of the return above the benchmark (MSCI World Total Return Index, Net Dividends Reinvested, AUD), subject to a High Water Mark.

BOARD & INVESTMENT MANAGER

Board

The Board consists of four Directors, two of which are Independent from the Company and the Investment Manager. The Board is highly experienced in the investment and financial services industry with the Chairman, Frank Gooch, having significant experience in the LIC industry.

Board of Directors		
Name	Position	Experience
Frank Gooch	Chairman (Independent)	Frank joined the Board in June 2017 as a Non-Executive Director before being appointed Chairman in December 2007. Frank has over 24 years' experience in the LIC industry after having been an executive of Milton Corporation Limited (ASX: MLT) since 1996 and Managing Director from 2004 until his retirement in 2018. Frank has also served as Chairman of the LIC industry body, Australian Listed Investment Companies Association.
Russell Pillemer	Managing Director	Russell is the Managing Director of the PIA and is also a Director and Chief Executive Officer of Pengana Capital Group Limited (ASX: PCG). Russell co-founded Pengana in 2003 and has been its Chief Executive Officer since inception. Prior to founding Pengana, Russell worked in the Investment Banking Division of Goldman Sachs in New York where he specialised in providing advice to funds management businesses. Before moving to New York, he was responsible for leading Goldman Sachs' Australian Financial Institutions Group. Russell was previously Chairman of Centric Wealth Group and a Principal of Turnbull Pillemer Capital.
David Groves	Director (Non-Executive)	David has over 25 years' experience as a company director. David is Chairman of Tasman Sea Salt Pty Ltd and is a Non-Executive Director of PCG and Redcape Hotel Group Management Ltd. David was formerly a Director of Pyrolyx AG, EQT Holdings Ltd, Tassal Group Ltd and GrainCorp Ltd. David is a member of the Council of Wollongong University.
Sandi Orleow	Director (Independent)	Sandi brings to the PIA Board over two decades of experience in financial services across superannuation, funds management, consulting and research. Having started her career at Arthur Andersen as a Chartered Accountant, Sandi became the Head of Consulting at Brockhouse Cooper in South Africa and then a Senior Investment Consultant and Head of Private Markets at Towers Watson Australia. Sandi established her own consulting business in 2011. Sandi is a Trustee Director of Active Super, is a member of the Investment Advisory Board of ACT Treasury and is a Director of the CFA Sydney Society.

Investment Manager

Pengana Investment Management Limited, a wholly owned subsidiary of Pengana Capital Group Limited (ASX:PCG), is the Investment Manager of the portfolio. In May 2021, PCG has appointed Harding Loevner to manage the portfolio.

Harding Loevner is a New Jersey based global equity manager that was established in 1989. The company has over 100 employees and in excess of US\$84b AUM.

Harding Loevner AUM as at 31 March 2021 (US\$)		
	Strategy Assets	% of AUM
Global	\$22.6b	27%
International (Non-US)	\$41.6b	49%
Emerging Markets	\$19.0b	23%
Chinese Equities	<\$0.1b	<1%
Frontier Emerging Markets	\$0.2b	<1%
Global Small Companies	<\$0.1b	<1%
International Small Companies	\$0.6b	1%
Research Portfolios	<\$0.1b	<1%

The Manager has over 100 employees and a well resourced investment team that includes 33 analysts with an average of 21 years' experience, all of which support the Global Equity strategy.

The portfolio will be ultimately managed by the two Co-Lead Portfolio Manager's, Peter Baughan and Jingyi Li. In addition to the Portfolio Managers, there are two Portfolio Manager's that are managing a "Paper Portfolio, which forms part of the Manager's succession planning. The Manager has experienced low rates of turnover with the key investment team members being with the Manager for an average of 15.5 years.

The Co-Lead Portfolio Manager's that are responsible for the PIA portfolio are:

- ◆ **Peter Baughan** - Peter joined Harding Loevner in 1997. Peter has over 36 years' industry experience, beginning his career with Chase Manhattan Bank, NA in 1983, where he worked in Distressed Debt and International Credit. Peter has been a Co-Lead Portfolio Manager since he commenced with the firm in 1997.
- ◆ **Jingyi Li** - Jingyi joined Harding Loevner in 2010 and has 17 years' experience in the industry. Prior to joining Harding Loevner, Jingyi was Vice President at New China Capital Management LLC. Jingyi also did a summer internship with Harding Loevner in 2004. Jingyi worked as a Senior Strategy Consultant for China at China International Economics Consultants and as a China Consultant at Accenture. Jingyi has been a Paper Portfolio Manager for the global equity strategy since 2010 and was appointed as a Co-Lead Portfolio Manager in 2021 after the previous Co-Lead Portfolio Manager was promoted to Chief Investment Officer.

Key Investment Team Members			
Name	Position	Years at Firm	Industry Experience (years)
Peter Baughan	Co-Lead Portfolio Manager	24	36
Jingyi Li	Co-Lead Portfolio Manager	11	17
Christopher Mack	Paper Portfolio Manager	17	17
Richard Schmidt	Paper Portfolio Manager	10	32

HARDING LOEVNER INVESTMENT PROCESS

Investment Philosophy

Harding Loevner has a quality-growth investment philosophy with the Manager seeking to invest in high quality, growing businesses at reasonable prices. The Manager believes that this investment strategy leads to superior risk-adjusted returns over the long-term.

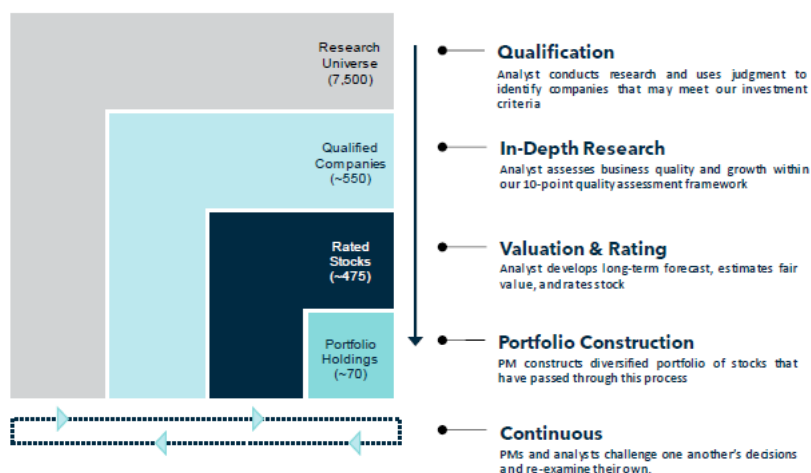
The Manager's framework for investment decisions provides for the ability to implement the investment philosophy and achieve its objectives. The key aspects of the investment framework include:

- ◆ **Collaboration without consensus:** the Manager seek to collaborate to foster opposing views points but not to achieve consensus. Individuals make decisions and are solely accountable for results.
- ◆ **Long-term investment horizon:** the Manager invests for the long-term not focusing on the noise that can cause short-term volatility. The Manager has a focus on fundamental signals that show companies progress in creating value. Equity-based compensation aligns the goals of the investment team with clients.
- ◆ **Replicability through a disciplined investment process:** the structured investment process allows for a repeatable process. The investment process mitigates the unconscious biases that can result from human decision-making.
- ◆ **Transparency:** the Manager requires views to be written and broadly shared with the investment team which lets the team see what others are thinking. The transparency in the process facilitates objective appraisal of contributions and continuous self-improvement for both the individual and the organisation.

Investment Process

The Manager has a structured and disciplined investment process that can be broken down into four key stages: (1) Qualification; (2) In-depth Research; (3) Valuation & Rating; and (4) Portfolio Construction. The process is depicted in the below graphic.

Investment Process



1) Qualification

The Manager seeks to invest in high quality companies that offer sustainable growth. In order to qualify for consideration as an investment, companies must meet four key criteria, detailed below. It is responsibility of analysts to provide coverage of their designated sectors and identify stocks that meet the criteria. All members of the investment team are delegated a sector of coverage, including the Portfolio Manager's.

- ◆ **Competitive Advantage:** sustainable return on capital above cost with a supportive industry structure.
- ◆ **Sustainable Growth:** growth underpinned by long-term fundamental trends.
- ◆ **Financial Strength:** balance sheet strength and free cash flow generation to fund long-term growth.
- ◆ **Quality Management:** management capable of executing the strategy for the benefit of shareholders.

The Manager is looking for the top ranked companies across all these criteria. The investable universe declines from ~7,500 to ~550 from this initial screening process.

2) In-depth Research

Once analysts identify a stock that meets the above criteria, in-depth research is then undertaken. The Manager has a standardised framework for which they conduct the in-depth research.

All businesses are assessed using the 10 point quality assessment framework, in which companies are assessed on a number of criteria and are given a ranking from 1-10 depending on the strength of the company in that area. The quality assessment framework expands on the four key criteria mentioned above. The Manager has provided the below example of the framework.

Quality Assessment Framework Example

Quality Assessment Framework

Competitive Advantage

- Threat of new entrants
- Threat of substitution
- Bargaining power of buyers
- Bargaining power of suppliers
- Intensity of rivalry

Sustainable Growth

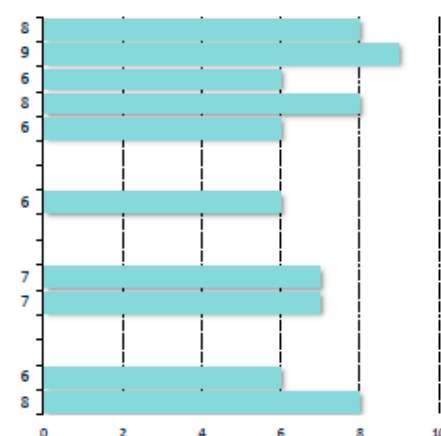
- Growth persistence & variability

Financial Strength

- Free cash flow strength
- Balance sheet strength

Quality Management

- Foresight & change management
- ESG risk factors



3) Valuation and Rating

For companies that rank highly on the quality assessment will then progress to the valuation and rating stage, in which analysts put together a valuation based on long-term financial forecasts.

The valuation model used is standardised across the organisation which allows for other members of the investment team to access and understand the valuation models for stress testing purposes.

The score determined in the quality assessment framework impacts the trajectory of cash flow projections. Once the valuation is completed, the analyst provides the company a rating of Buy, Hold or Sell. In addition to the rating the analyst sets Mileposts, which comprise of 3-5 key performance indicators that are used to monitor the investment thesis.

All analyst recommendations are then provided to the Portfolio Manager's and at this point the analysts job is done and it is up to the Portfolio Manager's to construct the portfolios. Given that the analyst has no say in the final use of the stock in the portfolio, the Manager compensates analysts based on their rating and recommendation provided after conducting the in-depth research. They are compensated based on the stock ratings compared to an appropriate benchmark.

4) Portfolio Construction and Monitoring

As mentioned above, the responsibility for the portfolio construction is with the Co-Lead Portfolio Manager's. The Portfolio Manager's essentially have an equal weighting regarding the capital allocation for the portfolio, although this is at the discretion of the Portfolio Manager's. The portfolio will be created from the pool of rated companies, which is typically around 475 companies. The Portfolio Manager's can invest in any company from the pool of rated companies. The company does not have to have a Buy rating.

The Portfolio Manager's will construct the portfolio within the investment guidelines (tabled below). The guidelines seek to ensure there is sufficient diversification within the portfolio and manage risk. Monitoring of the portfolio's compliance with risk limits is performed daily by the Client Management team. In addition, weekly reviews of risk reports are conducted by portfolio managers and the Compliance Committee and quarterly reviews of client portfolios are conducted by the firm's Portfolio Review Committee.

Additionally, each quarter the CIO conducts a Risk Review of model portfolios that assesses the impact of stock-specific investment decisions, sector allocations, and stock concentration on forecast total risk (volatility) and active risk (tracking error).

With regards to exiting a position, a position will be sold for the following reasons: (1) the company no longer meets the qualification criteria or becomes unrated; (2) Return expectations are low; (3) Failure to meet mileposts; and (4) For risk management purposes. The Manager has a focus on company fundamentals and as such it is change in the fundamentals that drives exit decisions as opposed to price movements, although price movements may trigger a review of a company. Reflecting the long-term investment horizon, portfolio turnover is relatively low, averaging 29% over the last 5 years and closer to 20% over the longer-term.

Investment Guidelines

General Guidelines

Number of Holdings	35-75
Minimum Number of Sectors	7
Maximum Invested in a Single Sector	25%
Maximum in a Single Industry	15%
Minimum Number of Markets	15
Maximum Investment in a Single Security	5%
Maximum Cash Holdings	10% (typically ~3%)

Geographic Guidelines

United States	25%-65%
France, Germany, Japan, Switzerland and UK	0%-20% (Each)
China	0%-15%
Australia, Canada, Hong Kong and Netherlands	0%-10% (Each)
Brazil, India, South Korea and Taiwan	0%-7% (Each)

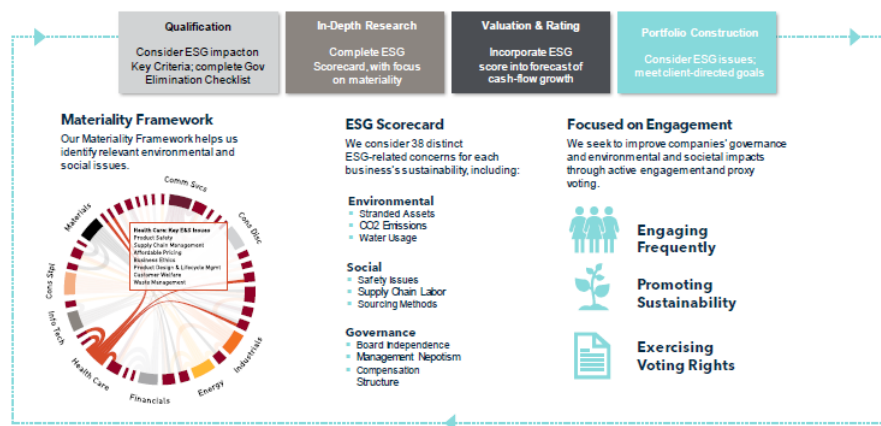
Investment Guidelines	
Other developed or emerging market	0%-5%
Single frontier market	0%-3%
Maximum in Emerging markets	25%
Maximum in Frontier markets	10%
Maximum in Emerging and Frontier markets in aggregate	25%

ESG Integration and Ethical Screening

The Manager believes that ESG issues can contribute profoundly to the success or failure of investments. As such, ESG factors are integrated into every step of the investment process. This is highlighted by the below graphic provided by the Manager.

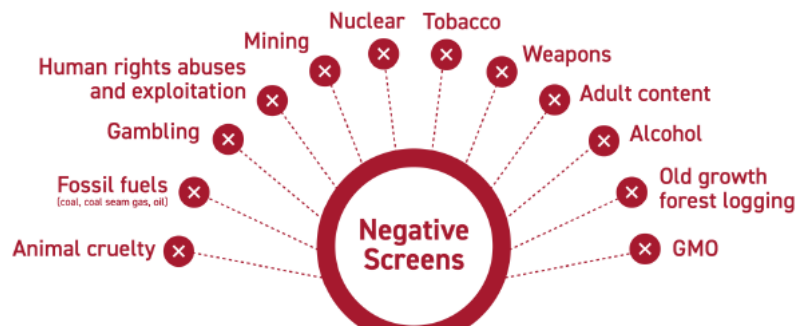
As can be seen in the below graphic, ESG factors are considered at each stage of the investment process with the Manager creating a Materiality Framework that seeks to identify significant ESG issues for each sector. An ESG scorecard is completed as part of the in-depth research undertaken on each of the companies, which considers 38 areas of concern. The ESG score is incorporated into the company forecasts when creating a valuation. The Manager takes an active approach to ESG, regularly engaging with companies on the issue.

ESG Integration in the Investment Process



The Company seeks to provide access to an ethically managed portfolio. To achieve this, a negative screening process is applied, which rules out companies that operate in certain industries that are deemed harmful to people, animals or the environment. The screen is incorporated into the investment process and the order management system, preventing investment in screened stocks. The factors that the Manager screens for are detailed in the below graphic.

Negative Screening Factors



PORTFOLIO POSITIONING

The Manager has completed the repositioning of the portfolio to align with their investment strategy. The below provides the differences in the portfolio as at February-end 2021 before Harding Loevner was appointed and after the repositioning was completed, as at 31 May 2021.

From a sector perspective, the portfolio is substantially different under the new Manager. Under Harding Loevner, the portfolio has a much greater position in the Information Technology and Industrial sectors. The current portfolio also has no exposure to the Materials sector. Under the previous Portfolio Manager's, the portfolio had a 10.2% weighting to the Materials sector.

Sector Breakdown Before & After Harding Loevner Appointment		
	28 February 2021	31 May 2021
Health Care	15.7%	20.7%
Communication Services	26.9%	9.6%
Communication Discretionary	11.6%	11.1%
Consumer Staples	2.5%	2.2%
Financials	15.4%	17.2%
Information Technology	7.3%	23.0%
Industrials	5.2%	13.8%
Materials	10.2%	0.0%
Real Estate	2.1%	0.0%
Utilities	0.0%	0.6%

As highlighted by the top 10 holdings below, the portfolio after the repositioning is very different to the portfolio under the previous management team. Of the 71 stocks in the portfolio at 31 May 2021, there were only six stocks that remained from the portfolio as at 28 February 2021.

The portfolio is liquid with an average market capitalisation of \$235.2b. With a maximum investment of 5% of the portfolio in a single stock and the size of the PIA portfolio, there is sufficient liquidity in the underlying investments. The average market capitalisation of the portfolio under the new Manager is significantly larger than the previous management team. The Manager has stipulated that the current portfolio has the ability to be liquidated within 5 days without causing significant market disruption.

Top 10 Portfolio Holdings Before & After Harding Loevner Appointment			
28 February 2021		31 May 2021	
Company	Portfolio Weighting	Company	Portfolio Weighting
Unitedhealth Group Inc	4.0%	SVB Financial Group	3.8%
Charter Communications Inc	3.8%	First Republic Bank	3.8%
Alibaba Group Holding Ltd	3.6%	Alphabet Inc	3.5%
Tencent Holdings Limited	3.5%	Deere & Co	3.3%
Pinterest Inc	3.3%	Amazon Inc	3.0%
Indus Towers Ltd	3.2%	Illumina Inc	2.7%
Cigna Corp	3.2%	Facebook Inc	2.6%
Houlihan Lokey Inc	3.2%	Paypal Holdings Inc	2.5%
Rakuten Inc	3.2%	CME Group Inc	2.5%
Lumentum Holdings Inc	3.1%	Microsoft Corp	2.0%
	34.1%		29.7%

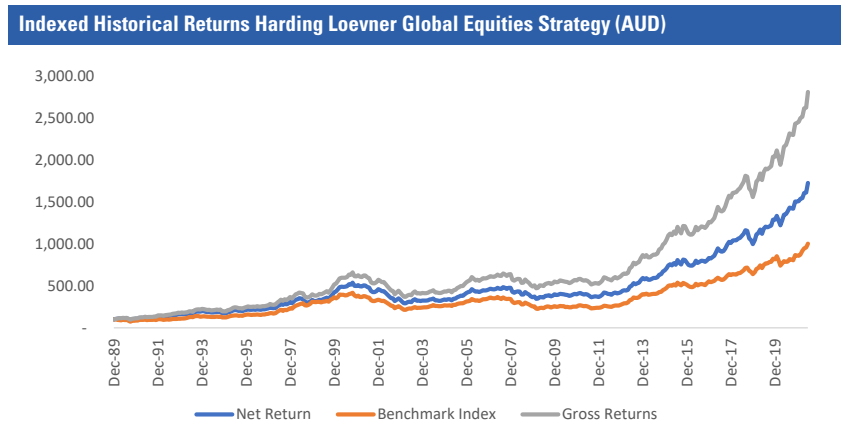
According to the above mentioned investment guidelines, the Manager's weighting to the US is at the upper end of the spectrum. The US will be the largest exposure of the portfolio under the new Manager.

Geographic Exposure		
Region	Portfolio Weighting	
	28 February 2021	31 May 2021
North America	49.8%	68.8%
UK	0.0%	1.6%
Europe ex UK	32.3%	13.2%
Japan	5.6%	3.3%
Asia ex Japan	0.0%	2.4%
Australia/New Zealand	0.0%	0.5%
Africa/Middle East	0.0%	0.0%
Emerging Markets	9.2%	8.5%

PERFORMANCE ANALYTICS

The portfolio will be managed using a different investment strategy under the new Manager and therefore the historical performance of the PIA portfolio does not reflect the investment strategy and process that will be used moving forward. Therefore we have provided the historical performance of the Global Equities strategy of Harding Loevner to provide an insight into the returns that have been historically generated through the strategy and that are relevant for PIA investors. We note that the strategy returns do not include the ethical screen.

The Global Equities strategy of Harding Loevner has outperformed the benchmark index since its establishment in 1989, as shown in the below chart. The net returns represent the simulated returns applying the management and performance fees of PIA to the gross returns of the strategy.



Note: Net Return = gross returns net of PIA fees.

The Manager has outperformed the benchmark index on both an absolute and a risk-adjusted basis over the long-term, as detailed in the below table. Given the investment philosophy of the Manager, an element of capital preservation is expected. The Manager has provided capital preservation for investors, with the portfolio declining less than the benchmark index in down markets consistently since inception.

Performance Analytics (as at 30 June 2021)

	Gross Returns	Net Returns*	Benchmark Index
Cumulative Total Returns			
1 year	29.0%	27.4%	27.5%
3 year (p.a)	18.2%	16.3%	14.4%
5 year (p.a)	19.3%	17.4%	14.6%
10 year (p.a)	17.5%	15.9%	14.6%
Since Inception (p.a)	11.1%	9.4%	7.5%
Standard Deviation			
1 year	8.6%	8.8%	9.3%
3 year (p.a)	12.2%	12.2%	12.4%
5 year (p.a)	10.5%	10.5%	10.7%
10 year (p.a)	11.0%	10.9%	10.7%
Since Inception (p.a)	12.4%	12.4%	12.9%
Sharpe Ratio			
1 year	3.19	2.92	2.78
3 year (p.a)	1.35	1.20	1.03
5 year (p.a)	1.68	1.50	1.22
10 year (p.a)	1.44	1.30	1.22
Since Inception (p.a)	0.76	0.62	0.46

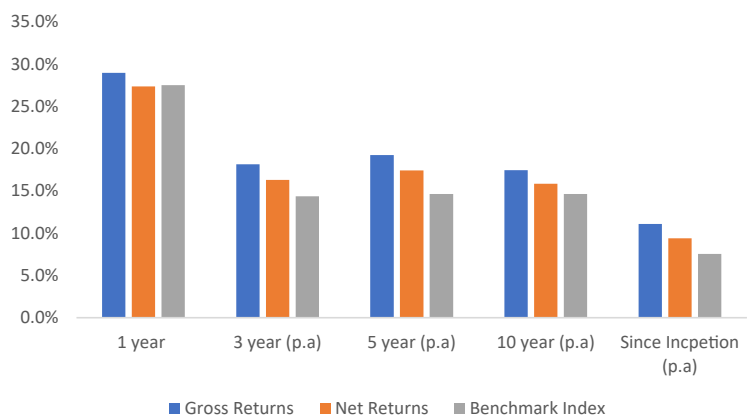
*Net Return = gross returns net of PIA fees.

Market Capture Analysis (as at 30 June 2021)

	Gross Returns	Net Returns*	Benchmark Index
Down Market Capture Ratio			
1 year	-0.09	0.23	na
3 year (p.a)	0.76	0.82	na
5 year (p.a)	0.71	0.77	na
10 year (p.a)	0.88	0.93	na
Since Inception (p.a)	0.76	0.81	na
Up Market Capture Ratio			
1 year	0.95	0.93	na
3 year (p.a)	1.02	0.98	na
5 year (p.a)	1.06	1.01	na
10 year (p.a)	1.06	1.02	na
Since Inception (p.a)	0.99	0.96	na
Market Capture Ratio			
1 year	-10.56	4.10	na
3 year (p.a)	1.34	1.20	na
5 year (p.a)	1.49	1.31	na
10 year (p.a)	1.20	1.09	na
Since Inception (p.a)	1.30	1.18	na

*Net Return = gross returns net of PIA fees.

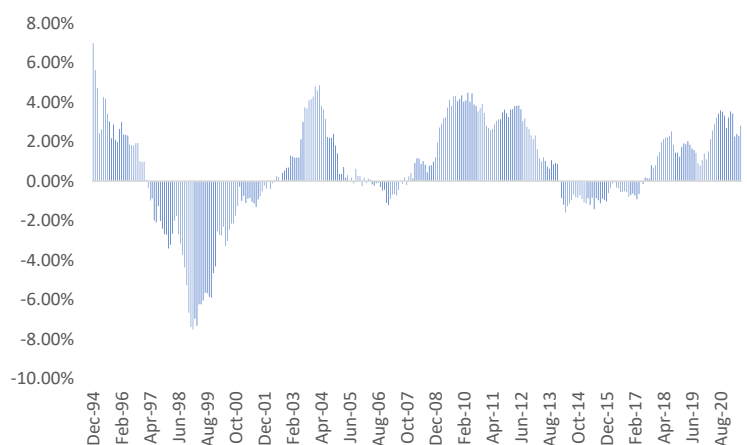
Harding Loevner Global Equity Strategy Returns by Period (AUD\$) to 30 June 2021



Looking at the consistency of the performance of the Manager, we have provided the rolling 5-year excess net returns over the benchmark index. Over rolling 5-year periods to 30 June 2021, the Manager has outperformed on a net basis in 61.8% of the periods.

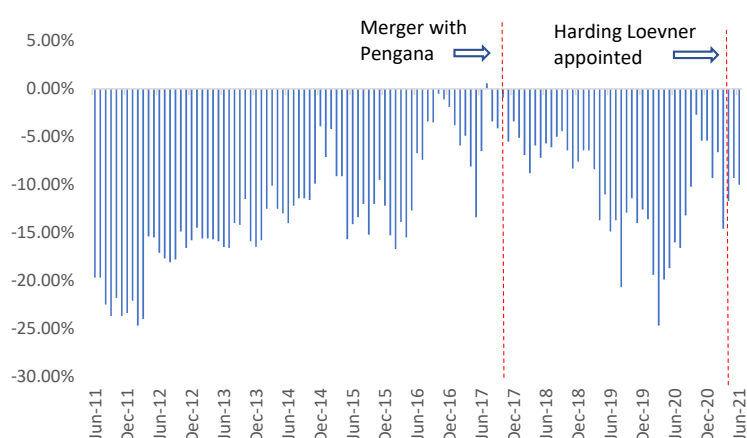
The Manager’s investment strategy has performed well in down markets with the net returns outperforming the market over the 5-year rolling periods in 93.6% of the negative market periods. The strategy tends to underperform in strong markets. In the periods where the benchmark index returned 10% or more, the net returns generated only outperformed the market in 35.6% of the periods.

Harding Loevner Global Equity Strategy Rolling 5-year Excess Net Returns (AUD) to 30 June 2021



PIA has largely traded at a discount to the pre-tax NTA over the long-term with the Company only trading at a premium in one-month since June 2011 to 30 June 2021, based on month-end data. Since the merger with Pengana Holdings was approved in November 2017, the Company has traded at an average discount of 10.5%.

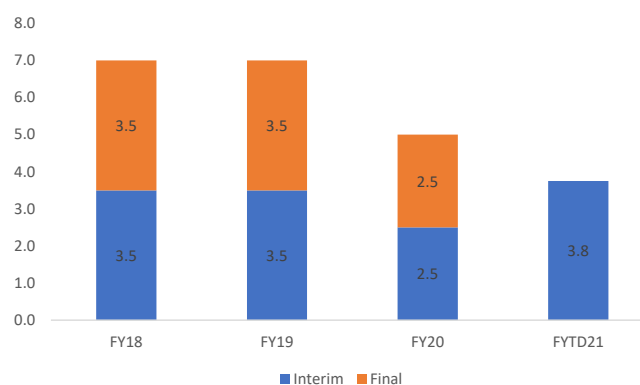
Historical Premium/Discount to Pre-tax NTA



The below graphic shows the dividends declared by PIA under the management of Pengana Capital Group. The Company has moved from semi-annual dividends to quarterly dividends for FY21. Based on the Profit Reserve at 31 December 2020, the Company has 10 years worth of dividend coverage in the event the total dividend is maintained at 5 cents per share.

Given the nature of the portfolio, dividends are primarily paid from capital gains with the portfolio receiving limited dividend income. Dividends have largely been fully franked, with the exception of the final dividend declared for FY19, which was partially franked.

PIA Dividends



PEER COMPARISON

PIA is one of two LICs providing exposure to global portfolios of ethical stocks, Morpnic Ethical Equities Fund Limited (ASX: MEC) being the other LIC. The two LICs are the only listed actively managed global ethical exposure available. There are four passively managed ETFs that seek to replicate a range of global ethical market indices.

The previous performance of the portfolio is not overly relevant given the portfolio will now be managed using a different strategy and philosophy. As such, we provide the comparison of some of the key features of the peer group. In addition to MEC, we have included a select group of LICs/LITs that provide diversified international equity exposure.

PIA is the fifth largest LIC/LIT by market capitalisation and the management and performance fees are in line with the average of the peer group.

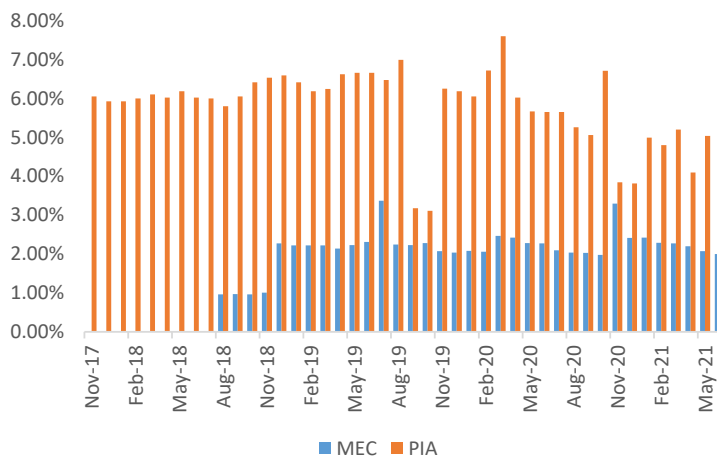
LIC/LIT Peer Group

LIC	Ticker	Listing Date	Market Cap (\$m)*	Management Fee	Performance Fee	Performance Hurdle
Magellan Global Fund	MGF	Nov-20	3,063.1	1.35%	10%	MSCI World NTR Index, subject to a High Water Mark
WAM Global Limited	WGB	Jun-18	620.1	1.25%	20%	MSCI World Index Net, AUD, subject to High Water Mark
PM Capital Global Opportunities Fund	PGF	Dec-13	561.0	1.00%	15%	MSCI World Index
Antipodes Global Investment Company	APL	Oct-16	543.4	1.10%	15%	MSCI All Country World Net Index, subject to High Water Mark
WCM Global Growth Fund	WQG	Jun-17	288.2	1.25%	10%	MSCI All Country World Index ex-Australia, capped at 0.75% of the portfolio value in each financial year.
Morpnic Ethical Equities Fund Limited	MEC	May-17	66.2	1.25%	15%	Outperformance of MSCI All Countries Total Return Daily Index AUD, subject to a High Water Mark
Pengana International Equities Limited	PIA	March 2004	336.7	1.23%	15%	MSCI World Total Return Index, Net Dividends Reinvested, AUD, subject to High Water Mark

*As at 30 June 2021.

Looking at the two global ethical LICs, PIA has historically provided a greater dividend yield than MEC, as shown below. Since Pengana Investment Management took over the management of the portfolio in November 2017, the Company has had an average rolling 12-month dividend yield of 5.8%. This compares to MEC, which has had an average rolling 12-month dividend yield of 1.69% over the period.

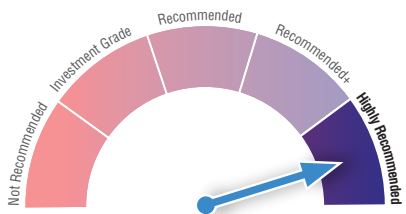
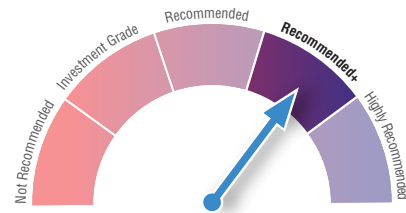
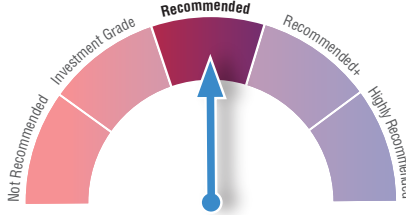
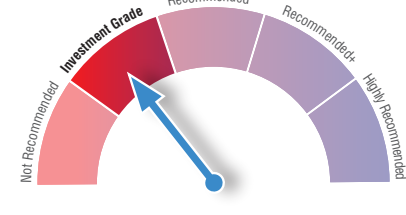
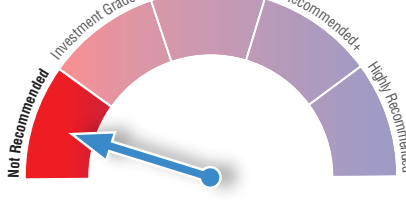
PIA vs MEC Rolling 12-month Dividend Yield (30 November 2017 to 30 June 2021)



APPENDIX A – RATINGS PROCESS

Independent Investment Research Pty Ltd “IIR” rating system

IIR has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: management and underlying portfolio construction; investment management, product structure, risk management, experience and performance; fees, risks and likely outcomes.

LMI Ratings	SCORE
<p>Highly Recommended</p> 	<p>83 and above</p> <p>This is the highest rating provided by IIR, indicating this is a best of breed product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved exceptionally high scores in a number of categories. The product provides a highly attractive risk/return trade-off. The Fund is likely effectively to apply industry best practice to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors.</p>
<p>Recommended +</p> 	<p>79–83</p> <p>This rating indicates that IIR believes this is a superior grade product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved high scores in a number of categories. In addition, the product rates highly on one or two attributes in our key criteria. It has an above-average risk/return trade-off and should be able consistently to generate above average risk-adjusted returns in line with stated investment objectives. The Fund should be in a position effectively to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors. This should result in returns that reflect the expected level of risk.</p>
<p>Recommended</p> 	<p>70–79</p> <p>This rating indicates that IIR believes this is an above-average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an above-average risk/return trade-off and should be able to consistently generate above-average risk adjusted returns in line with stated investment objectives.</p>
<p>Investment Grade</p> 	<p>60-70</p> <p>This rating indicates that IIR believes this is an average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an average risk/return trade-off and should be able to consistently generate average risk adjusted returns in line with stated investment objectives.</p>
<p>Not Recommended</p> 	<p><60</p> <p>This rating indicates that IIR believes that despite the product’s merits and attributes, it has failed to meet the minimum aggregate requirements of our review process across a number of key evaluation parameters. While this is a product below the minimum rating to be considered Investment Grade, this does not mean the product is without merit. Funds in this category are considered to be susceptible to high risks that are not reflected by the projected return. Performance volatility, particularly on the down-side, is likely.</p>

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