FUND DESCRIPTION AND FEATURES

The Pengana International Fund - Ethical is a long only fund that holds 30-50 companies across developed and developing markets, large and small companies.

The Fund predominantly invests in companies that deliver stable yet growing free cash flow throughout cycles (which we classify as ‘Core’ holdings) whilst also taking positions in more cyclical companies (‘Cyclical’) and those whose valuation has been materially misconstrued by the market (‘Opportunistic’). We avoid investment in companies that are, in our opinion, harmful to people, animals or the environment.

Visit our website for more information on the Fund.

PERFORMANCE COMMENTARY

Aim
We aim to achieve superior AUD-denominated returns with low volatility. The superior returns aim can be disaggregated into (i) capital preservation; (ii) capital appreciation. While these aims make no mention of the benchmark, we believe that fulfilling our aims will result in superior returns to the benchmark over the medium-to-long term.

Quarterly Performance
The Fund delivered -4.6% in 4Q18 compared to the MSCI ACWI index which returned -10.3%, the weakest quarter since 1Q09. The quarter was characterised by heightened volatility and weakness across most sectors but it was reassuring to see the portfolio exhibiting defensive qualities in the face of such uncertainty.

Key drivers of the performance include:

- Stocks that were the largest positive contributors – CME Group (US derivatives exchange), Newmont Mining (US gold miner) and Bharti Infratel (Indian telecom towers).
- Stocks that were the largest detractors – Wacker Chemie (German specialty chemical), Corticeira Amorim (Portuguese cork producer), and Nutrien (North American fertiliser).
- Cash – 18% on average of the Fund was held in cash and gold stocks during 4Q18. This was a relative performance tailwind as equity markets fell.
- Sector exposure – the Fund was underweight the Information Technology sector and had no exposure to the Energy sector, the two worst performing sectors during 4Q18.
- Country exposure – the Fund was underweight the US and Japan, which were relatively weaker performing regions during 4Q18, and overweight China and India, which were relatively stronger performing regions during 4Q18.
The portfolio is divided into three segments: Portfolio insurance (put options) – the put options provided a significant tailwind as equity markets fell.

**MARKET COMMENTARY**

In 4Q18, the MSCI ACWI was down 12.5% in local currency and down 10.3% in AUD terms as the AUD depreciated against the USD.

The best performing sectors were Utilities, Real Estate and Consumer Staples. In our last quarterly, we commented that Utilities and Consumer Staples were two of the worst performing sectors during 3Q18 as well as over the last two years. Their outperformance this quarter represents a significant rotation to the more defensive sectors.

The worst performing sectors were Energy, Information Technology and Industrials. Crude oil (WTI) declined by nearly 40% during the quarter, driving the weak performance in Energy. Information Technology has been the best performing sector by far over the last two years and the weak performance was driven by profit taking as well as rotation away from the riskier sectors.

The best performing (major) countries during the quarter were Brazil, India and Turkey.

The worst performing (major) countries were Mexico, Canada and many European markets.

**PORTFOLIO**

The portfolio is divided into three segments:

1. **Core (60-80% of the Fund)** – Core is intended to provide a stable base for the Fund. Companies in this segment are growing, reasonably priced, have low business cyclicalty, strong cash generation, dominant presence in their industries, strong management teams and favourable structural tail-winds.

2. **Cyclical (0-30% of the Fund)** – Cyclical contains companies we expect to benefit from shorter duration trends. As these cycles tend to be transitory, timing is more important in our investment decisions than in Core. Cyclical companies offer the potential for materially more substantial short-term gains than Core, however, they are also riskier. Financials, basic materials, and agriculture are examples of industries that may be represented in this segment.

3. **Opportunistic (0-20% of the Fund)** – Opportunistic includes companies we believe are materially undervalued or whose growth has been under-appreciated. These companies offer potentially more attractive shorter-term gains than Core, however, they also tend to be riskier. Examples of Opportunistic investments include companies in the midst of a takeover, earlier stage internet/health/retail companies and companies whose share prices have markedly declined.

The Fund’s positioning at 31 December 2018 is summarised as:

- 86% of the Fund is invested in equities, 2% of the equities exposure is in gold-linked shares, and 13% is held in cash.
- Segment exposure is 60-70% in “Core”, 10-20% in “Cyclical” and 5-10% in “Opportunistic”.
- Geographic exposure – the Fund’s key underweights (relative to the Market) are China, the US and Japan. The key overweights are Europe and China. The Fund currently has no direct Latin America or Africa exposure.
- Sector exposure – the Fund is notably overweight Materials and is materially underweight Information Technology, Energy and Utilities.
- 24% of the Fund is invested in small or mid-cap companies, 42% is in large-caps, and 20% is in mega-caps.

We have been warning in recent monthly and quarterly publications of the possibility of a market selloff and heightened uncertainty. Not only did we warn about this possibility, we also acted. Entering the fourth quarter we had largely repositioned the Fund to a significantly more defensive stance. The cash and derivative protection levels were increased to a maximum. In addition, we had also increased our exposure to companies such as derivative exchanges that would benefit from an increase in volatility in markets.

Throughout the many years that we have been meeting companies around the world we have developed a comprehensive list of businesses that largely fit all of our investment criteria bar one important factor, their valuation. Simply put, not only do we monitor companies that we hold in our portfolio, but we also monitor many high-quality companies that are simply too expensive. Over the last quarter, we took the opportunity to invest in upward of seven new companies. This is a record number of investments for us to be making in such a short period of time. We feel the market selloff has greatly improved the attributes of the overall portfolio leaving us with an optimistic outlook for our portfolio of holdings.
STOCK FOCUS

Bharti Infratel is a telecom tower infrastructure provider in India. Bharti’s share price and operations have suffered in the last year as a result of bankruptcies and consolidation within the telecom sector, which has reduced the demand for telecom towers. A year ago, there were more than ten telecom operators in India but the entry of Reliance Jio two years ago resulted in a severe increase in competition and the Indian telecom sector has now been reduced to a three-player market. With the merger of Vodafone India and Idea Cellular finally complete, the worst should be behind Bharti.

Bharti is currently in the process of merging with Indus, the largest telecom tower infrastructure provider in India (in which Bharti already has a 42% stake). This was originally expected to be completed by the end of March 2019 but has since been pushed back slightly to the end of June 2019. Post-merger, Bharti and Indus combined will have more than 160,000 telecom towers and more than 40% market share in terms of tenancies. India has less than half a million telecom towers while China has around two million telecom towers, which suggests significant long-term growth potential.

Underpinning the demand for additional telecom towers is the fact that India has very little cable and Internet access is mainly via the mobile phone. With the rollout of 4G in 2016, mobile data usage has skyrocketed in India from less than 500 petabytes (1 petabyte = 1 million gigabytes) in the quarter ending June 2016 to more than 12,000 petabytes in the quarter ending September 2018. With mobile data usage in the September 2018 quarter increasing 130% year on year and 20% quarter on quarter, the telecom providers will need additional towers to continue densifying their network.

The average revenue per user per month (ARPU) generated by the telecom providers in India has been declining and is currently less than US$2. By way of comparison, ARPU is about US$8 in China, less than US$20 in Europe and about US$40 in the US. Although GDP per capital is currently significantly lower in India than in China, Europe and the US, this is expected to increase in the longer term as should the ARPU. An increase in ARPU in India will lift profits for the telecom providers, which will in turn allow them to invest more into their networks, benefiting Bharti.

Bharti has no debt and is currently trading on 8x EV/EBITDA with more than 4% dividend yield. KKR and the Canada Pension Plan Investment Board own 10.3% of Bharti and they have been rumoured to make a bid post-merger. KKR and the Canada Pension Plan
FUND AND STRATEGY PERFORMANCE (NET OF RECALCULATED FEES)¹

A new strategy was implemented for the Pengana International Fund - Ethical from 1 July 2017 by the Pengana team. The financial information below refers to the strategy currently employed by the Pengana International Fund - Ethical. For full performance history of the Pengana International Fund - Ethical, please refer to the Pengana website.

Net performance for periods ending 31 December 2018¹

<table>
<thead>
<tr>
<th></th>
<th>1 mth</th>
<th>3 mths</th>
<th>1 yr</th>
<th>Since Inception p.a.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund and Strategy</td>
<td>-1.4%</td>
<td>-4.6%</td>
<td>2.0%</td>
<td>7.3%</td>
</tr>
<tr>
<td>Benchmark</td>
<td>-3.6%</td>
<td>-10.3%</td>
<td>0.6%</td>
<td>6.8%</td>
</tr>
</tbody>
</table>

PORTFOLIO INFORMATION

Top 10 stocks

<table>
<thead>
<tr>
<th>Name</th>
<th>Country</th>
<th>Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alphabet</td>
<td>United States</td>
<td>Communication Services</td>
</tr>
<tr>
<td>Bharti Infratel</td>
<td>India</td>
<td>Communication Services</td>
</tr>
<tr>
<td>Cigna</td>
<td>United States</td>
<td>Health Care</td>
</tr>
<tr>
<td>CME Group</td>
<td>United States</td>
<td>Financials</td>
</tr>
<tr>
<td>Deutsche Boerse</td>
<td>Germany</td>
<td>Financials</td>
</tr>
<tr>
<td>Dollar General</td>
<td>United States</td>
<td>Consumer Discretionary</td>
</tr>
<tr>
<td>Heineken</td>
<td>Netherlands</td>
<td>Consumer Staples</td>
</tr>
<tr>
<td>Intercontinental Exchange</td>
<td>United States</td>
<td>Financials</td>
</tr>
<tr>
<td>Microsoft</td>
<td>United States</td>
<td>Information Technology</td>
</tr>
<tr>
<td>Nutrien</td>
<td>Canada</td>
<td>Materials</td>
</tr>
</tbody>
</table>

Largest 3 contributors (for quarter)

<table>
<thead>
<tr>
<th>Name</th>
<th>Country</th>
<th>Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>CME Group</td>
<td></td>
<td></td>
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<tr>
<td>Newmont Mining Corp</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bharti Infratel</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Largest 3 detractors (for quarter)

<table>
<thead>
<tr>
<th>Name</th>
<th>Country</th>
<th>Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wacker Chemie</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corticeira Amorim</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nutrien</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

SECTOR BREAKDOWN

- Financials: 17.6%
- Cons. Discretionary: 11.5%
- Industrials: 11.2%
- Health Care: 10.5%
- Cons. Staples: 9.8%
- Comm. Services: 9.7%
- Materials: 8.5%
- IT: 5.3%
- Real Estate: 1.8%
- Cash: 13.1%
- Core: 67.6%
- Cyclical: 10.6%
- Opportunistic: 7.8%
- Cash: 13.1%

CAPITALISATION

- Under $5b USD: 10.4%
- $5b - $10b USD: 13.6%
- $10b - $100b USD: 41.9%
- Above $100b USD: 20.3%
- Options: 0.8%
- Cash: 13.1%

GEOGRAPHIC

- North America: 44.9%
- Europe ex-UK: 26.9%
- Emerging Markets Asia: 12.5%
- UK: 1.7%
- Options: 0.8%
- Cash: 13.1%

STATISTICAL DATA

<table>
<thead>
<tr>
<th>Fund portfolio summary¹</th>
<th>Volatility²</th>
<th>Number of stocks</th>
<th>Beta³</th>
<th>Maximum drawdown</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>9.40%</td>
<td>40</td>
<td>0.78</td>
<td>-9.43%</td>
</tr>
</tbody>
</table>

1. From July 2017, performance figures are those of the Pengana International Fund - Ethical (the “Fund”) class A units (net of fees). Between July 2015 and June 2017, performance figures have been recalculated by adjusting the Pengana International Fund’s (ARSN 610 351 641) net returns to reflect the management fee of the Fund. From July 2017 the Fund has been managed by the same team and with the same strategy as the Pengana International Fund. The Pengana International Fund's net track record data is historical. Past performance is not a reliable indicator of future performance. The value of an investment in the Fund can go up or down. 2. Annualised standard deviation since inception. 3. Relative to the MSCI All Country World Total Return Index in AUD.

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