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 lower volatility than the benchmark. 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 2.6% in 3Q19.

Key drivers of the performance include:

- **Stocks that were the largest positive contributors** – ASML (Dutch semiconductor equipment), CME (US derivatives exchange) and Medtronic (US medical devices).
- **Stocks that were the largest detractors** – Uber Technologies (US ridesharing), Rakuten (Japan internet conglomerate), Virtu Financial (US market maker).
- **Sector exposure** – The Fund’s sector selection was generally a positive contributor. Information Technology (‘IT’), Financials and Health Care were the best performing sectors. Materials and Consumer Discretionary were the worst performing sectors.
- **Cash** – cash was a marginal headwind to relative performance, although this was offset by the Fund’s relatively low cash holding while the market appreciated, and the cash being held in AUD, which depreciated against most major currencies.
MARKET COMMENTARY

In 3Q19, the MSCI ACWI was up 1.1% in local currency and 4.0% in AUD-terms as the AUD depreciated against most major currencies, with the EUR being the exception. This marked the 14th positive quarter in the past 17 quarters, which is a virtually unprecedented period of stock-market prosperity.

This quarter’s similarity with prior quarters was that IT was once again among the top performing sectors. The other top performing sectors were those most exposed to declining interest rates, including Utilities, Consumer Staples and Real Estate.

The weakest performing sectors were Energy, Materials and Health Care. The Energy sector was weighed down by a 10% decline in the Brent Oil price, and Materials declined due to concerns about the outlook for global GDP growth as global PMIs (continued to) weaken. While the Health Care sector was the third weakest sector, it still generated a respectable positive return. The Fund has no exposure to the Energy sector.

Developed markets meaningfully outperformed emerging markets, with the latter delivering a negative return of approx. 2.4% and the former delivering +1.8%. As with the sector performance, this divergence reflects concerns about global growth.

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 cyclicality, 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 30 September 2019:

• 91.1% of the Fund is invested in equities, and 8.9% held in cash.
• Segment exposure is 60-70% in “Core”, 10-15% in “Cyclical” and 10-15% in “Opportunistic”.
• Geographic exposure – 46% of the Fund is invested in the US, which is a minor decline from the 50% weight as at Jun-19, and is somewhat lower than the Benchmark’s weight of 59%. The Fund has relatively high exposure to Europe ex-UK (28%) and also has a notable investment (13%) in Emerging Markets. 2.7% of the Fund is invested in Japan and 2% domiciled in Asia Pacific ex-Japan.
• Sector exposure – the Fund’s largest sector exposure is in Financials (20%), followed by Communication Services (16%) and Health Care (14%). The Fund has no exposure to Utilities, Real Estate and Energy and is notably underweight Information Technology.
• 22% of the Fund is invested in small or mid-cap companies, 38% is in large-caps, and 30% is in mega-caps.
Ethics Focus

Fair and balanced: the ethics of Fox Corporation

How would you assess the ethics of a company?

Fox Corporation (Fox Corp) passes the ethical screens we apply to the Pengana International range of ethical products. Fox Corp does not manufacture tobacco, or weapons. It does not log old growth forests or test cosmetics on animals. Yet whether Fox Corp should be part of the universe we consider for our ethical products has sparked vigorous debate.

From an Environmental, Social and Governance (ESG) viewpoint, key criteria when assessing the ESG risks of a media company include its approach to media pluralism and to journalistic integrity.

By our deeds we are known

Although Fox Corp is a relatively new entity, we can notionally assess its journalistic integrity based on its corporate predecessors, given they share core Board members and management team.

Perhaps the most notorious breach of journalistic integrity in recent times started with the revelations in 2006 that a private investigator working for a News of the World journalist had accessed the private voicemails of staff members of the Royal Family. The scandal precipitated an investigation by The Guardian that eventually led to the discovery of widespread phone hacking in the newspaper group.

On the other side of the Atlantic the man that transformed Fox News into the powerhouse it is today, Chairman Roger Ailes, resigned in 2016 amidst sexual harassment allegations. Shortly after, long time anchor Bill O’Reilly also resigned amidst sexual harassment allegations.

These transgressions have had a financial impact on the company. The subsequent investigations following the phone hacking incident from UK and US governments led to the imprisonment of two top executives, multiple lawsuits and over US$500 million spent in legal fees and settlements and, after 168 years in print, News of the World closed in 2011. The scandal was directly responsible for the failed bid by News Corporation to take full control of BSkyB.

The number and severity of ethical breaches associated with News Corporation are unprecedented for a media company and speak to the lack of operational controls and oversight by senior management and Board members. Indeed, the cross-party House of Commons Culture, Media and Sport Committee’s report into the phone hacking scandal concluded “Rupert Murdoch is not a fit person to exercise stewardship of a major international company”.

A fault confessed is half redressed

As investment managers, we believe that companies can change. Corporate culture problems can be addressed; past mistakes can be used as a base for learning and growth.

The sexual harassment scandal led Fox Corp to establish the “Fox News Workplace Professionalism and Inclusion Council” to provide oversight over Fox Corp’s “workplace civility” and provide a mechanism for receiving, investigating and responding to complaints. In practice however, Rupert Murdoch referred to the sexual harassment claims as “flirting”, “nonsense”, “largely political” and “isolated incidents”.

Fox Corp’s and News Corp’s websites are conspicuously barren when it comes to policies in place to maintain ethical standards in media and advertising. Fox Corp’s “Standard of Business Conduct” is silent on key issues such as biases and neutrality in reporting and it expressly allows employees “to engage in the political process in any way allowable by law, including but not limited to donating money to the candidates of your choice and volunteering on campaigns.” This is in stark contrast to the New York Times’ editorial standards that state categorically “journalists have no place on the playing fields of politics”.

There is no evidence that Fox Corp has sufficiently robust policies in place that will prevent a repeat of the ethical breaches of the past, and there is significant doubt that there is support from key executives to effect the change required to the culture that enabled these breaches.

A significant commitment to improving the culture and management of ethical issues would be required before considering Fox Corp as an investment for the Pengana International range of ethical products.

A short history of News Corporation

News Corporation was incorporated in Adelaide in 1980 and subsequently traded on the New York Stock Exchange until 2013, when it split into two companies: News Corp (publishing) and 21st Century Fox (broadcasting and media). Primarily a response to a number of scandals involving News of the World and other News Corporation properties, Rupert Murdoch framed the 2013 split as a way to “unlock even greater long-term shareholder value”.

In 2019, Disney purchased the motion picture, cable entertainment, and direct broadcast satellite divisions of 21st Century Fox. What remained (Fox’s television network and broadcast stations, Fox News, Fox Sports, and the 20th Century Fox studio lot) became Fox Corporation.

In 2016 Fox News began to quietly phase out the “Fair and Balanced” slogan in favour of “Most Watched, Most Trusted” and, more recently, “Real News. Real Honest Opinion”.

FAIR AND BALANCED: THE ETHICS OF FOX CORPORATION

The Sexual Harassment Scandal

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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 30 September 2019¹

<table>
<thead>
<tr>
<th>Fund and Strategy</th>
<th>1 mth</th>
<th>3 mths</th>
<th>1 yr</th>
<th>Since Inception p.a.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>-0.1%</td>
<td>2.6%</td>
<td>8.7%</td>
<td>9.3%</td>
</tr>
<tr>
<td>Benchmark</td>
<td>2.0%</td>
<td>4.0%</td>
<td>8.8%</td>
<td>10.4%</td>
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</table>

PORTFOLIO INFORMATION

Top 10 stocks

<table>
<thead>
<tr>
<th>Name</th>
<th>Country</th>
<th>Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aon</td>
<td>United States</td>
<td>Financials</td>
</tr>
<tr>
<td>ASML Holding</td>
<td>Netherlands</td>
<td>Information Technology</td>
</tr>
<tr>
<td>Bharti Infratel</td>
<td>India</td>
<td>Communication Services</td>
</tr>
<tr>
<td>CME Group</td>
<td>United States</td>
<td>Financials</td>
</tr>
<tr>
<td>Charter Communications Inc</td>
<td>United States</td>
<td>Communication Services</td>
</tr>
<tr>
<td>Cigna Corp</td>
<td>United States</td>
<td>Health Care</td>
</tr>
<tr>
<td>Deutsche Boerse</td>
<td>Germany</td>
<td>Financials</td>
</tr>
<tr>
<td>Medtronic</td>
<td>United States</td>
<td>Health Care</td>
</tr>
<tr>
<td>Mowi ASA</td>
<td>Norway</td>
<td>Consumer Staples</td>
</tr>
<tr>
<td>Tencent Holdings</td>
<td>China</td>
<td>Communication Services</td>
</tr>
</tbody>
</table>

SECTOR BREAKDOWN

Financials 20.4%
Communication Services 15.5%
Health Care 14.0%
Consumer Discretionary 11.4%
Information Technology 10.6%
Industrials 9.0%
Consumer Staples 5.7%
Materials 4.5%
Cash 8.9%

CAPITALISATION

Under 5bn USD 11.9%
5bn - 10bn USD 10.7%
10bn - 100bn USD 38.1%
Above 100bn USD 30.4%
Cash 8.9%

SEGMENT

Core 66.6%
Opportunistic 15.7%
Cyclical 8.8%
Cash 8.9%

GEOGRAPHIC

North America 46.0%
Europe ex-UK 27.8%
Emerging Markets - Asia 12.9%
Japan 2.7%
Asia Pacific ex-Japan 1.7%
Cash 8.9%

STATISTICAL DATA

<table>
<thead>
<tr>
<th>Fund portfolio summary¹</th>
<th></th>
<th>Number of stocks</th>
<th>35</th>
</tr>
</thead>
<tbody>
<tr>
<td>Volatility²</td>
<td>9.13%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Beta³</td>
<td>0.79</td>
<td>Maximum drawdown</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 the investment can go up or down. 2. Annualised standard deviation since inception. 3. Relative to the MSCI All Country World Total Return Index in AUD.

Pengana Capital Limited (ABN 30 103 800 568, AFSL 226566) ("Pengana") is the issuer of units in the Pengana International Fund - Ethical (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.