PENGANA
CAPITAL GROUP

PENGANA HARDING LOEVNER INTERNATIONAL FUND

QUALITY AND GROWTH INVESTING - WHERE TO FROM HERE?

IMAP

MARCH 2023

RICK SCHMIDT, CFA

PARTNER

Portfolio Manager: Global & EM Equities

Recommended Lonsec Research

Zenith RECOMMENDED

Superior SQM RESEARCH

MARCH 2023

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Quality & Growth Characteristics, Investment Statistics, Performance Attribution, Selection Effect, Portfolio Exposures, and Holdings are shown as supplemental information only.

Profit Margin: relationship of net income to net sales. *Return on Assets:* net income for past 12 months divided by total assets. *Return on Equity:* the net income divided by total common equity outstanding, expressed as a percent. *Debt/Equity Ratio:* total long-term debt divided by total shareholder's equity. *Standard Deviation:* the statistical measure of the degree to which an individual value in a probability distribution tends to vary from the mean of the distribution. *Sales Per Share:* the total revenue earned per share over a 12-month period; net of returns, allowances, and discounts. *Earnings Per Share:* portion of a company's profit allocated to each outstanding share of common stock. *Cash Flow:* a measure of the cash generating capability of a company calculated by adding non-cash charges (e.g. depreciation) and interest expense to pretax income. *Dividend Per Share:* a total dividends per share paid during the previous fiscal year. *Alpha:* a measure of risk-adjusted return. *Beta:* a measure of the portfolio's sensitivity to the market. *R-Squared:* a measure of how well a portfolio tracks the market. *Information Ratio:* a measure of risk-adjusted return calculated by dividing the portfolio active return (i.e., portfolio returns minus benchmark return) by the standard deviation of the active return. *Sharpe Ratio:* the return over the risk free rate per unit of risk. *Upside Capture:* a measure of the manager's performance in up markets relative to the market itself. *Downside Capture:* a measure of the manager's performance in down markets relative to the market itself. *Weighted Average Market Capitalization:* the product of a security's price & the number of shares outstanding. *Price/Earnings Ratio:* the ratio of a firms closing stock price and its trailing 12 months earnings per share. *Price/Book Ratio:* the ratio of a firms closing stock price and its fiscal year end book value per share. *Price/Cash Flow Ratio:* the ratio of a firms closing stock price and its fiscal year end cash flow per share. *Turnover:* calculated by dividing the lesser of Purchases or Sales by Average Capital. *Tracking Error*: a measure of how closely a portfolio follows the index to which it is benchmarked.

The MSCI All Country World Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global developed and emerging markets. The Index consists of 50 developed and emerging market countries. The MSCI World Index is a free float-adjusted market capitalization index that is designed to measure global developed market equity performance. The Index consists of 23 developed market countries. You cannot invest directly in these Indexes.

Harding Loevner's Quality, Growth, and Value rankings are proprietary measures determined using objective data. Quality rankings are based on the stability, trend, and level of profitability, as well as balance sheet strength. Growth rankings are based on historical growth of earnings, sales, and assets, as well as expected changes in earnings and profitability. Value rankings are based on several valuation measures, including price ratios.

The AUD Harding Loevner Global Equity Strategy performance has been simulated by Pengana from the monthly gross returns of the Harding Loevner Global Equity composite. This simulation was done by converting the USD gross returns to AUD, then applying a management fee of 0.974% p.a. (the Class B management fee). Net performance figures are after all fees and expenses and assume reinvestment of distributions. Composite performance is preliminary and obtained from Harding Loevner's accounting system. 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.

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THE INVESTMENT MANAGER: HARDING LOEVNER

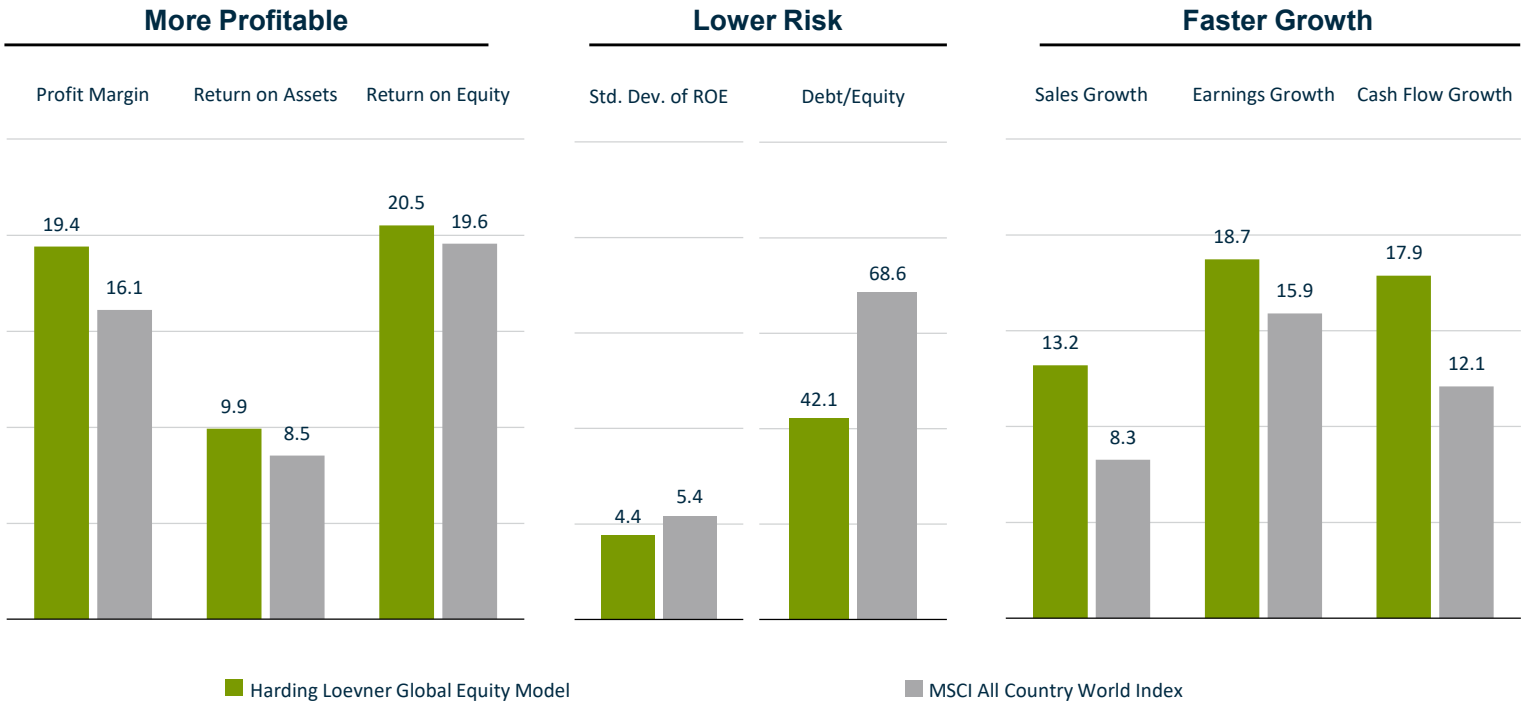
WE INVEST IN HIGH-QUALITY, GROWING COMPANIES. IDENTIFIED THROUGH FUNDAMENTAL RESEARCH WITH A LONG-TERM, GLOBAL PERSPECTIVE.

- Total Assets of US$55.6 Billion[1]
- 33 Year Track Record – Investing for our clients since 1989.
- Owner-led Firm – Equity ownership aligns us with the long-term interests of our clients.
- Focus – Single philosophy, process, and research platform.
- Collaboration Without Consensus – Collaborate to foster opposing viewpoints, not to achieve consensus.
- Distinct Decision-Making – Our portfolio team structure imposes individual accountability, mitigates biases, and ensures continuity.

1. As at December 31, 2022

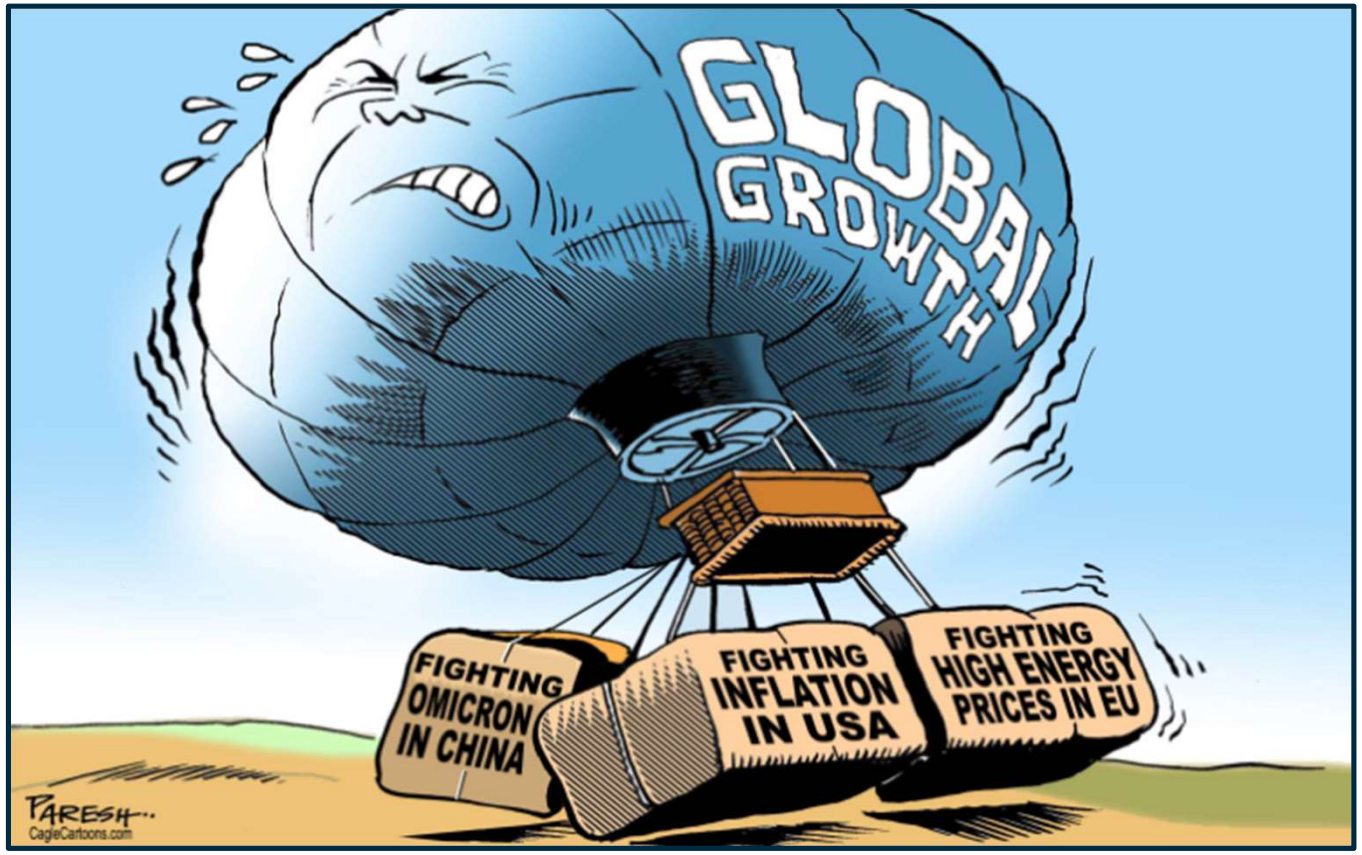
QUALITY & GROWTH INVESTMENT PHILOSOPHY

We build diversified portfolios of high-quality, growing companies.



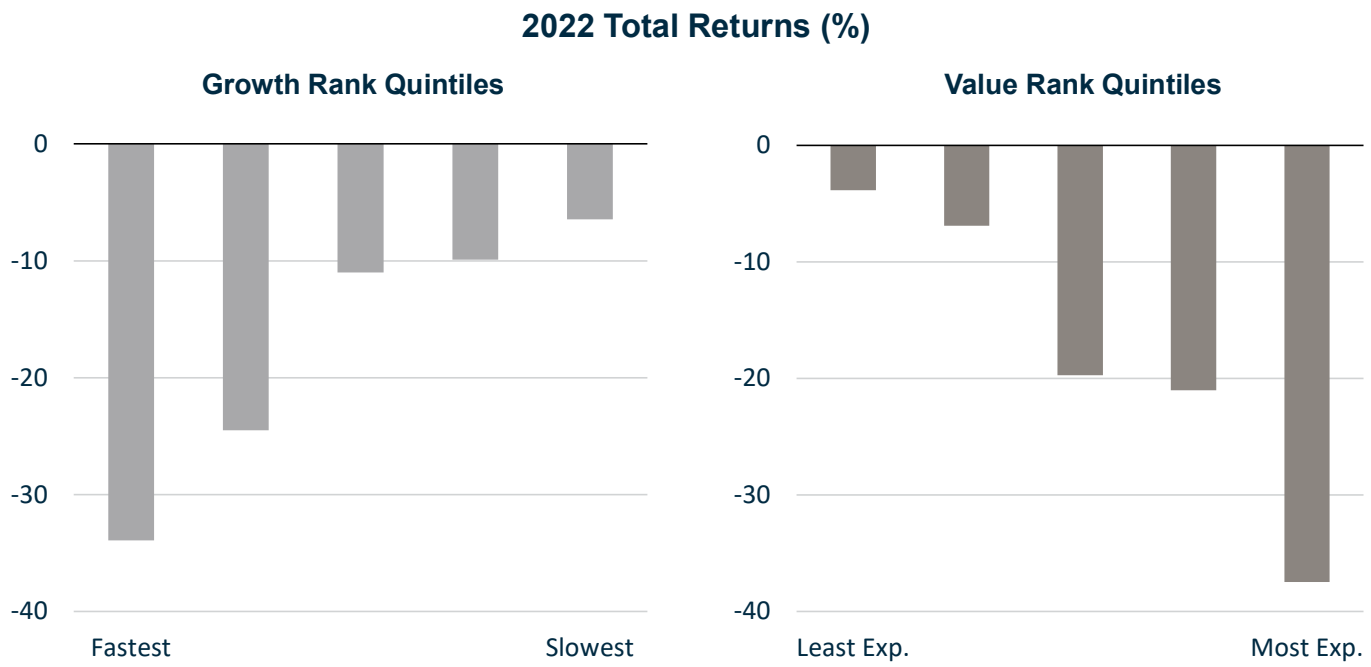
Source: MSCI Inc., FactSet. Data as at December 31, 2022. Growth and volatility metrics are based on five-year historical data; the other ratios are based on the most recent annual data.
All metrics and ratios are percentages presented as weighted medians.

CHALLENGING ENVIRONMENT FOR QUALITY-GROWTH STOCKS



VALUE OUTPERFORMED GROWTH STOCKS IN 2022

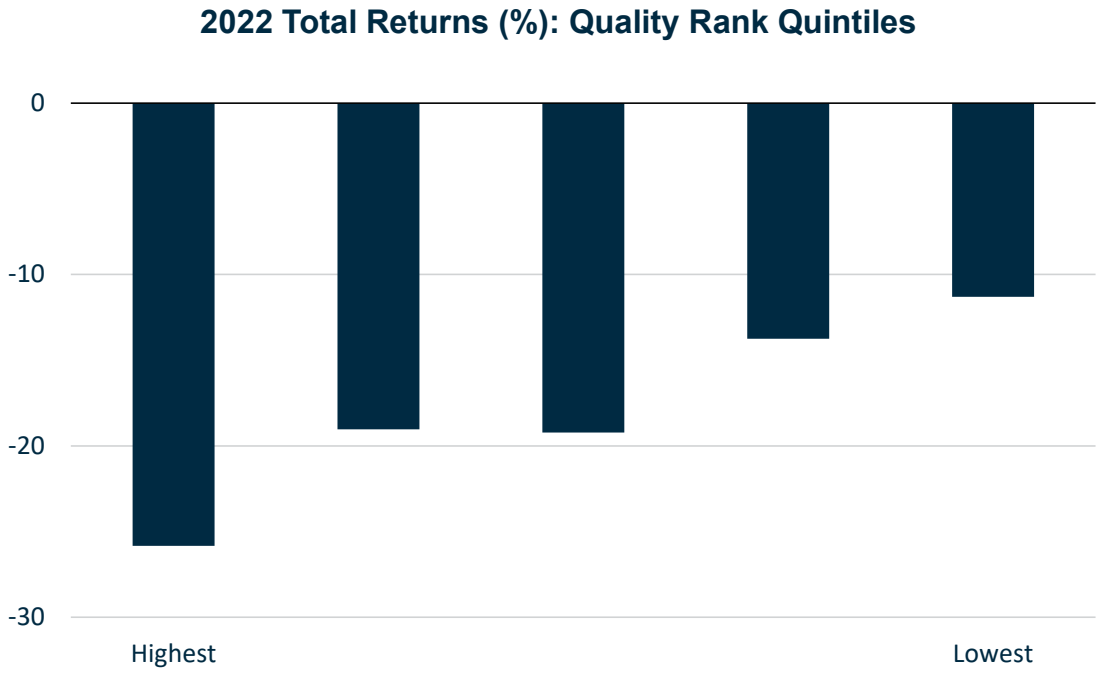
MSCI ACWI Index Total Returns by Growth, and Value Rank



Source: FactSet, MSCI Inc. Data as of December 31, 2022. Please read the disclosures, which are an integral part of this presentation.

HIGH QUALITY STOCKS UNDERPERFORMED IN FALLING MARKETS IN 2022

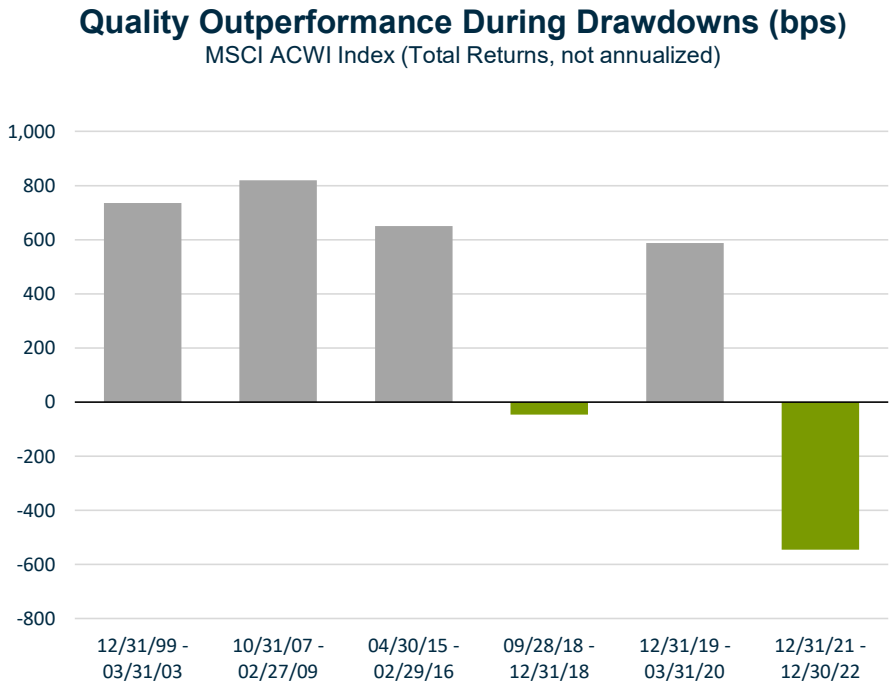
MSCI ACWI Index Total Returns by Quality Rank

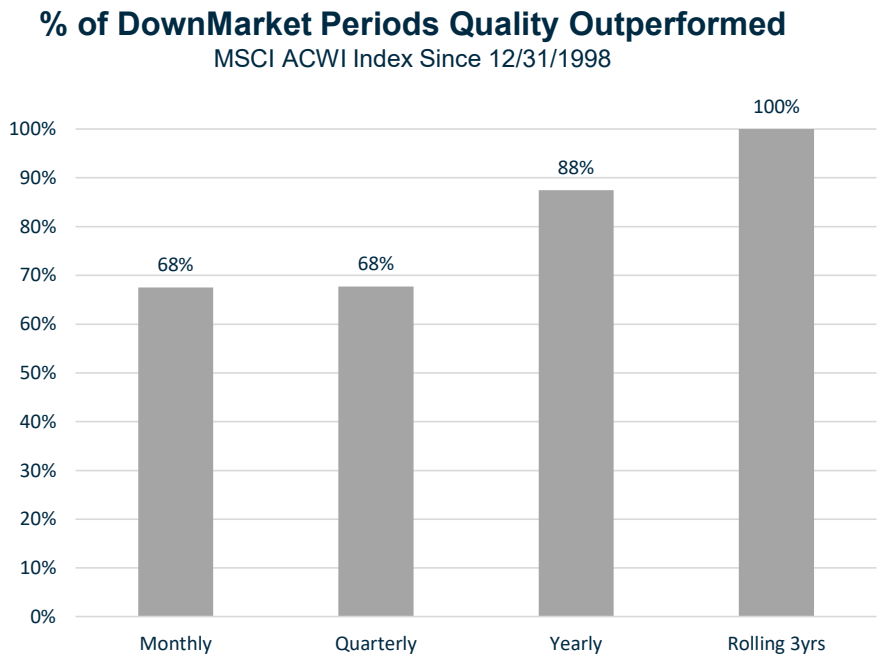


Source: FactSet, MSCI Inc. Data as of December 31, 2022. Please read the disclosures, which are an integral part of this presentation.

QUALITY TYPICALLY DEFENDS DURING EXTENDED MARKET DECLINES

It can take time to separate the wheat from the chaff

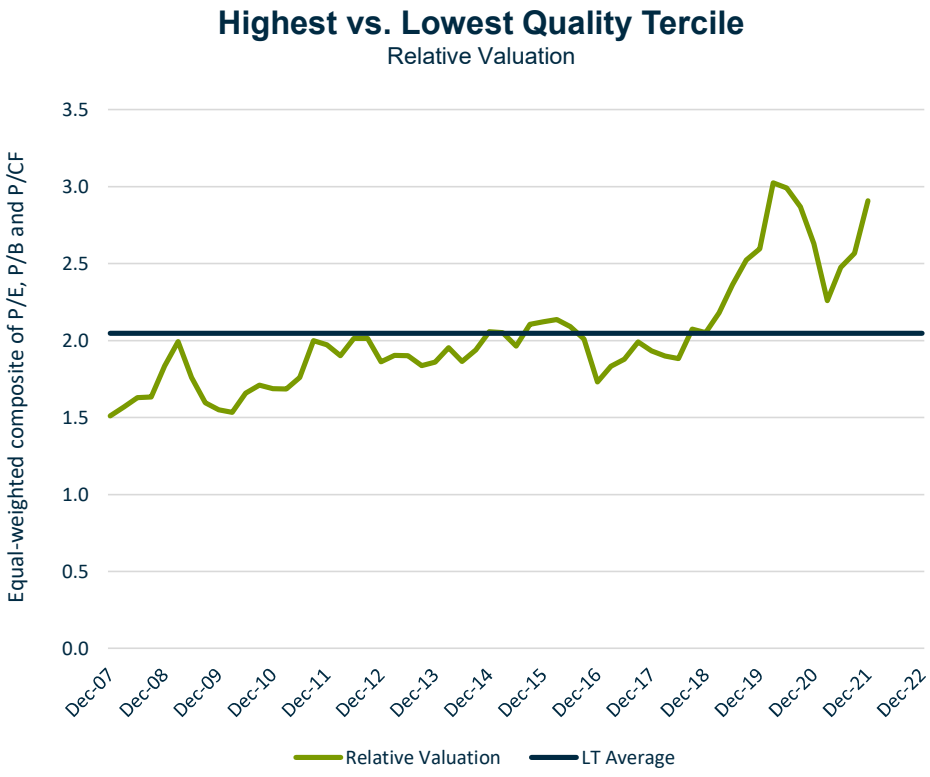


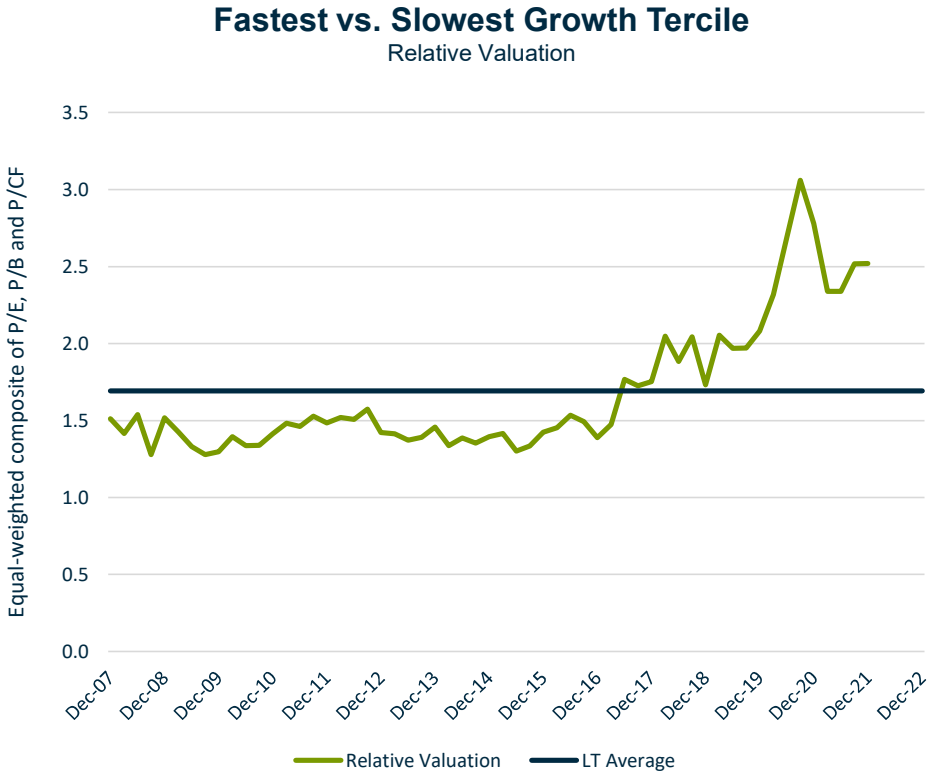


Left – Chart shows outperformance of the MSCI ACWI Quality Index during drawdown periods where the MSCI ACWI Index underperformed by 15% or more.
Right – Chart shows the frequency of the MSCI ACWI Quality index's outperformance in each bucketed time period during down market periods (measured quarterly) for the MSCI ACWI index since the beginning of 1999. Source: Bloomberg, MSCI Inc.; Data as of December 2022.

WHY DIDN'T QUALITY PROTECT?

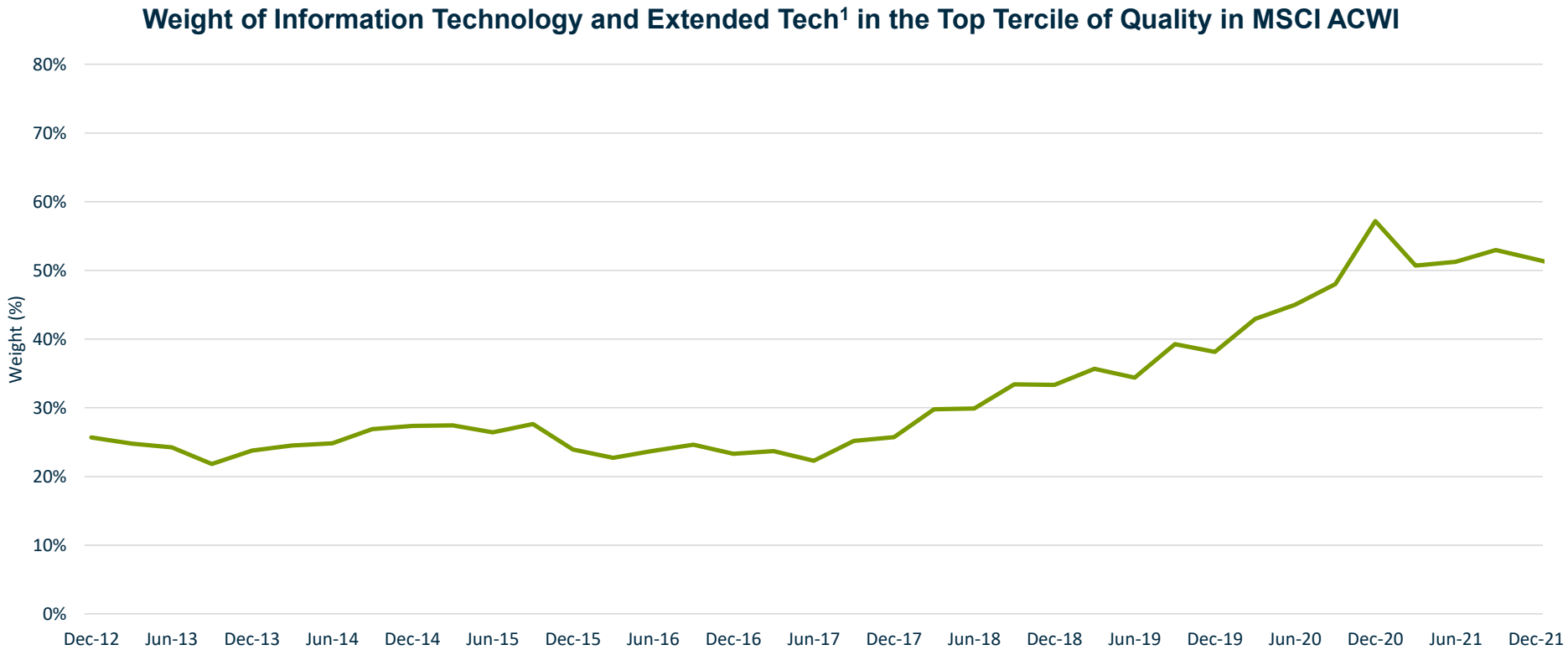
Relative Valuations at the end of 2021





Source: FactSet, MSCI Inc. Data as of December 31, 2022.

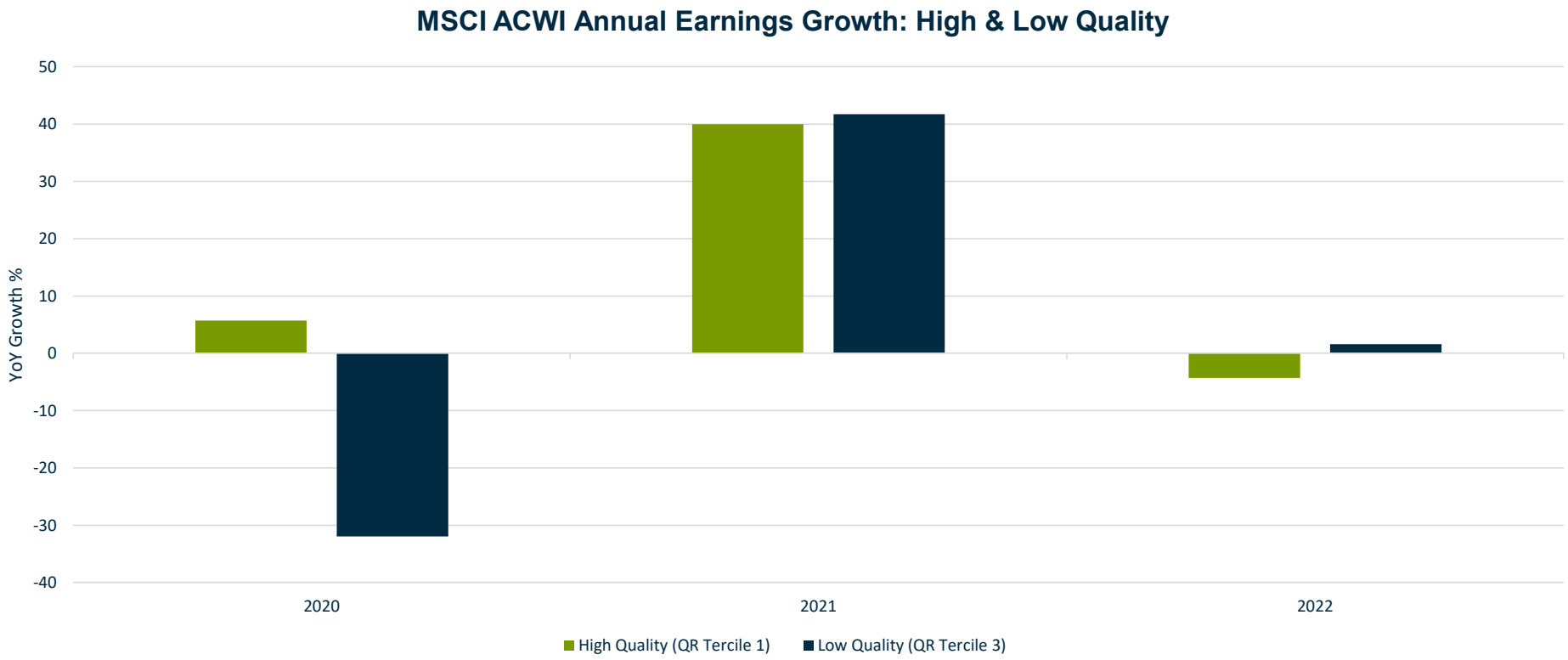
QUALITY INCREASINGLY SKEWED TO TECH AND EXTENDED TECH



Source 1Extended Tech includes MSCI Industry groups Interactive Media & Services and Internet & Direct Marketing Retail. Source: FactSet, MSCI Inc. Data as of December 31, 2022.

PANDEMIC FISCAL STIMULUS SUPPORTED EARNINGS

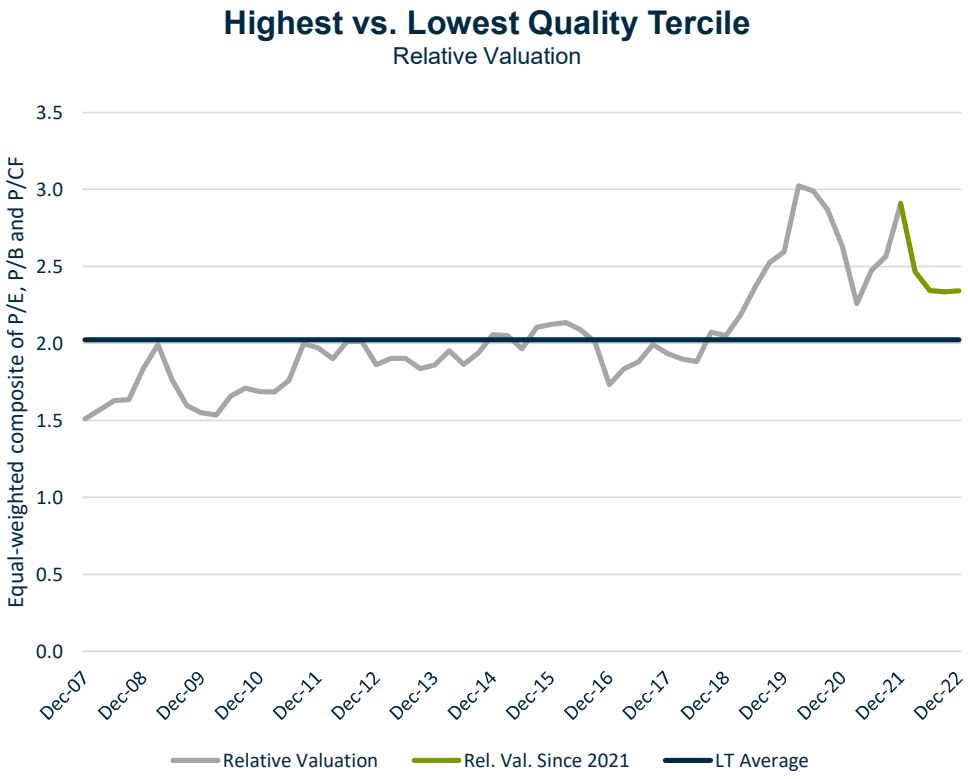
The onset of Covid hurt earnings, but commodity/energy rebound helped

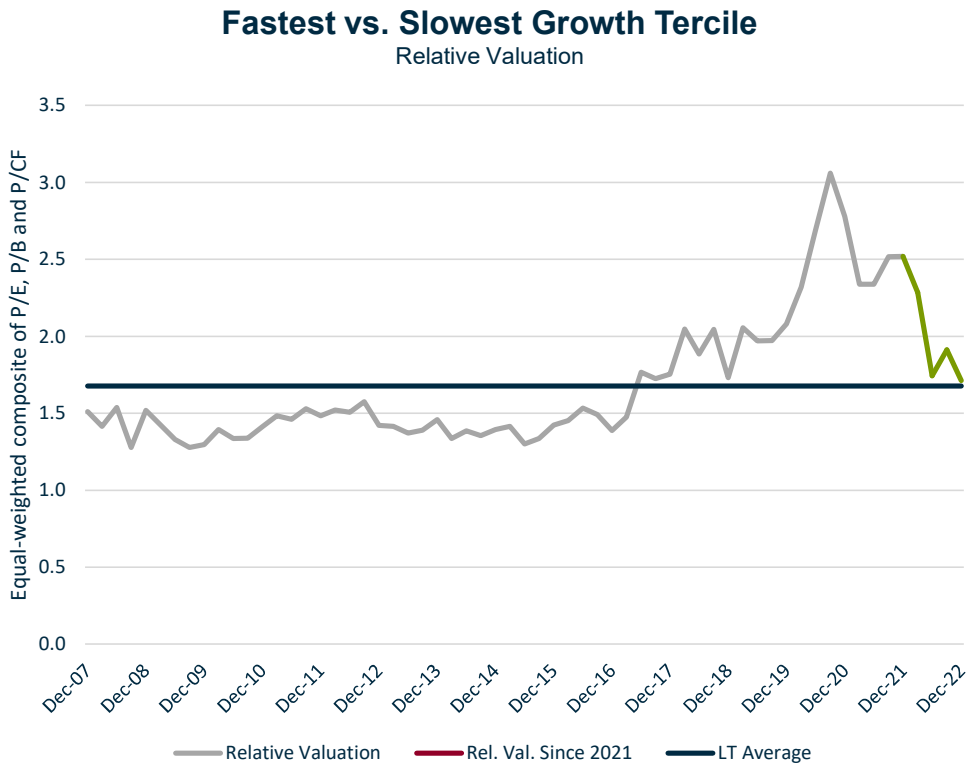


NOBODY KNOWS…

VALUATIONS OF HIGH-QUALITY, GROWTH STOCKS APPEAR FAR MORE REASONABLE TODAY

Previous chart updated to December 31, 2022





Source: FactSet, MSCI Inc. Data as of December 31, 2022.

GOOD NEWS FOR FUNDAMENTAL INVESTORS: LESS THAN ZERO IS GOING EXTINCT

The end of free capital should lead to more sensible investment.

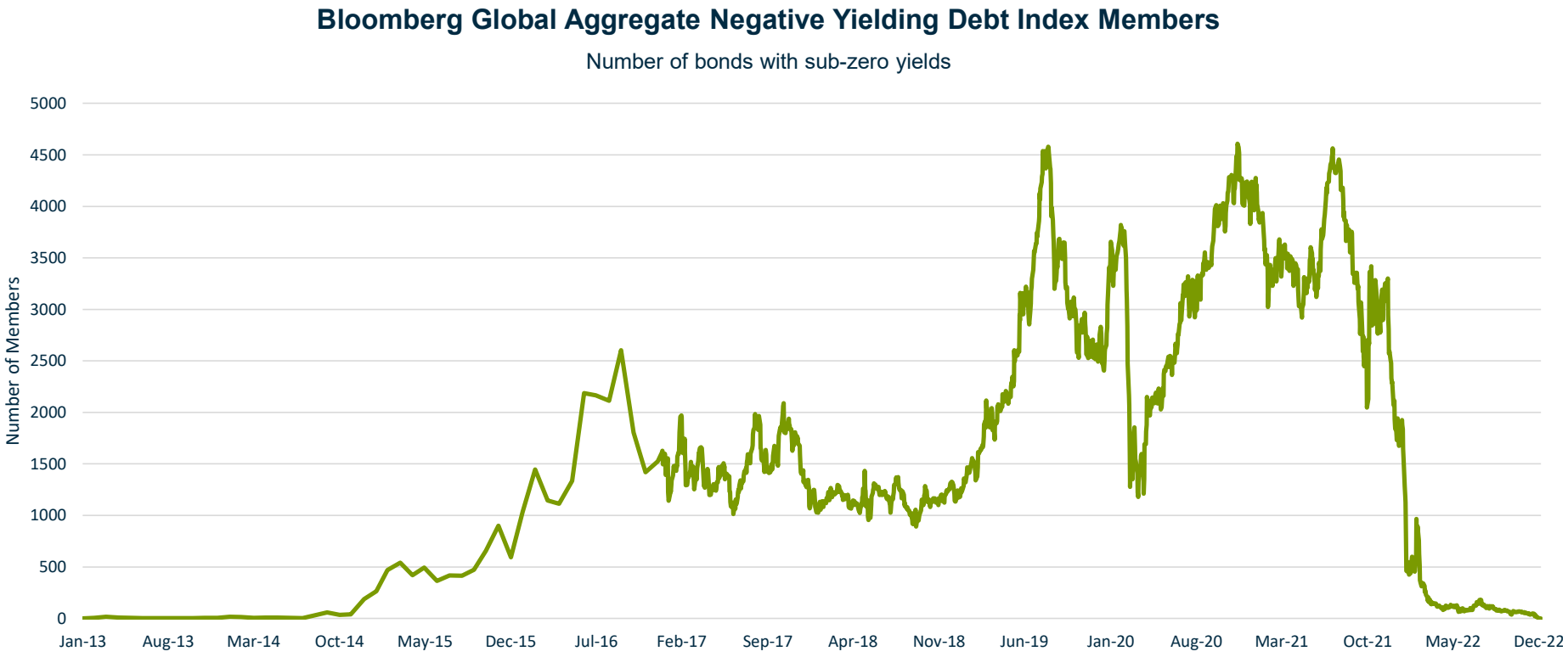


Chart displays the Bloomberg Global Aggregate Negative Yielding Debt Index, which indicates the number of bonds with sub-zero yields. Source: Bloomberg. Data as of January 4, 2023. Please read the disclosures, which are an integral part of this presentation.

INNOVATION MARCHES ON: TECHNOLOGY

Semiconductor growth is no longer limited by human consumption.

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Data Generation by Category (ZB)

NVIDIA

SYNOPSYS®

APPLIED MATERIALS®

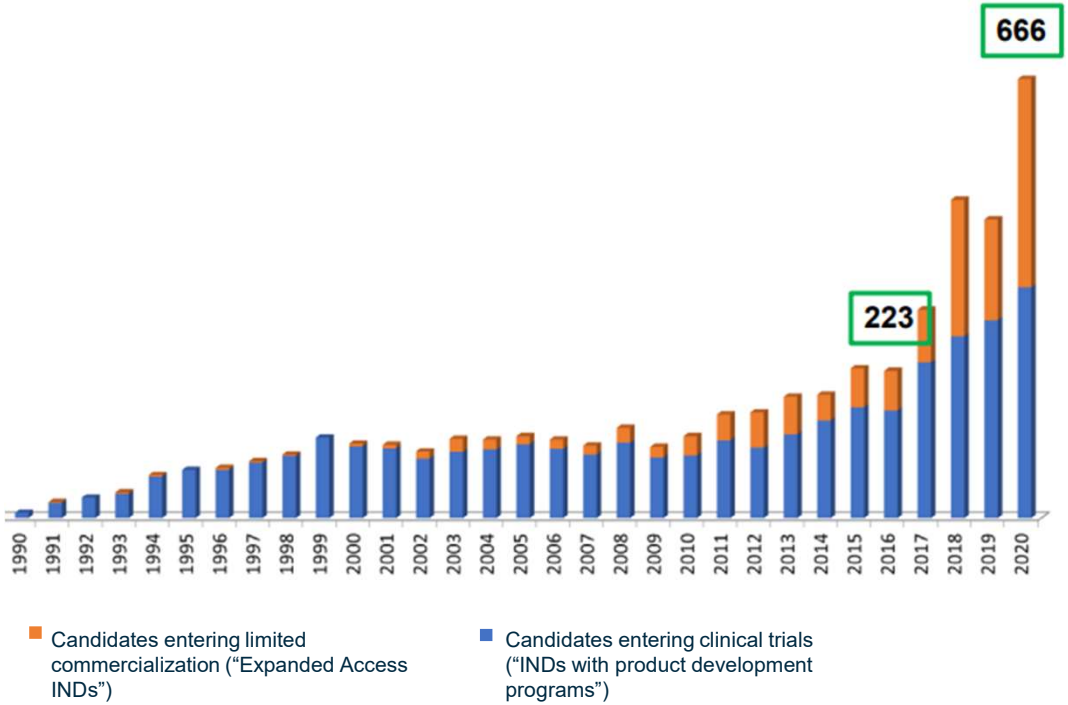
Source: Applied Materials. ZB = zettabytes

INNOVATION MARCHES ON: HEALTH CARE

The Golden Age of Biological Products

PENGANA CAPITAL GROUP

FDA Submitted Applications for INDs (Investigational New Drugs)



abcam

VERTEX

illumina

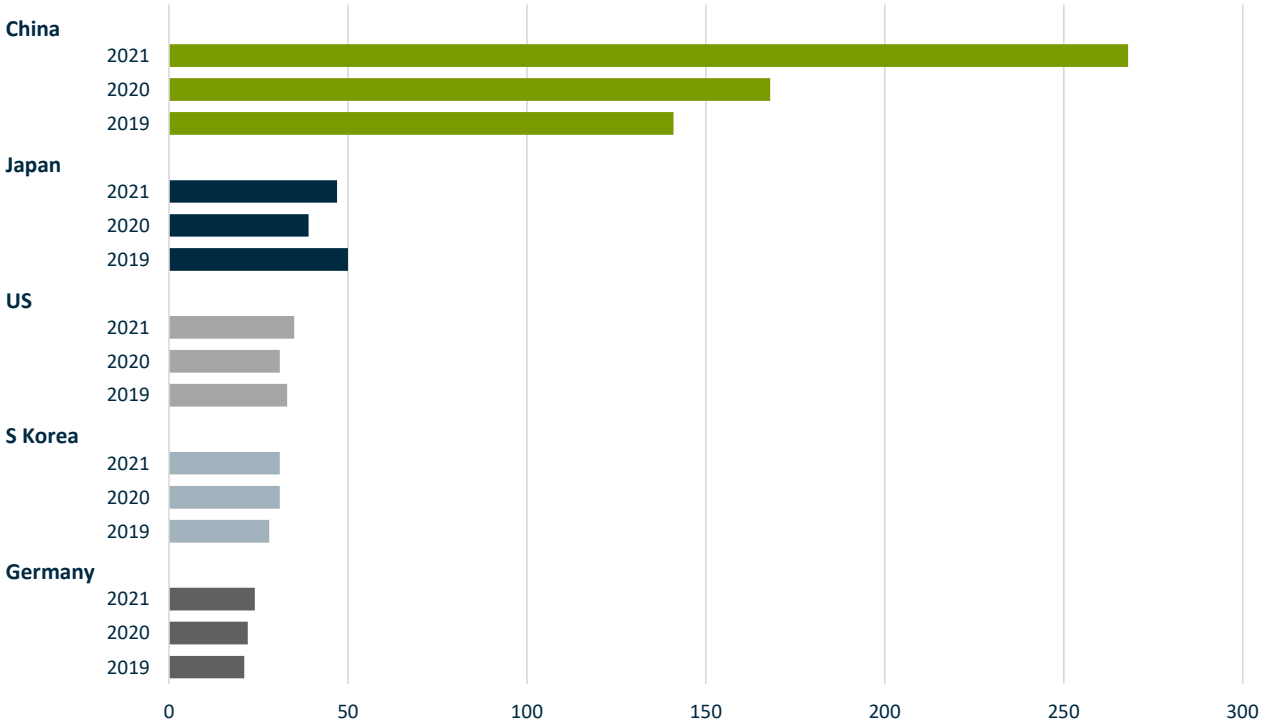
药明康德 WuXi AppTec

Source: US FDA, Office of Tissues and Advanced Therapies. March 10, 2022.

INNOVATION MARCHES ON: INDUSTRIAL AUTOMATION

Near-shoring needs machines… and the software to run them

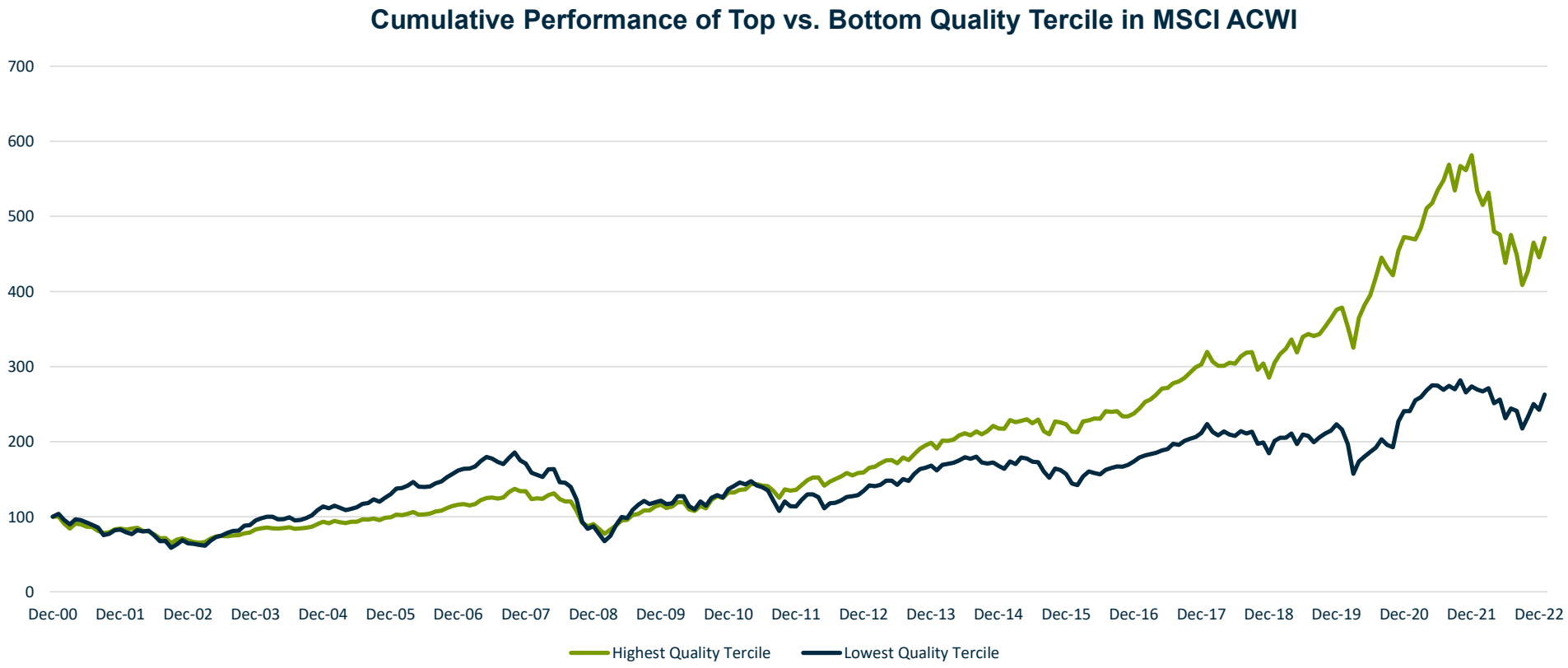
Annual Installations of Industrial Robots, 2019-2022



Source: IFR, March 2023

GOOD COMPANIES OUTPERFORM IN THE LONG TERM

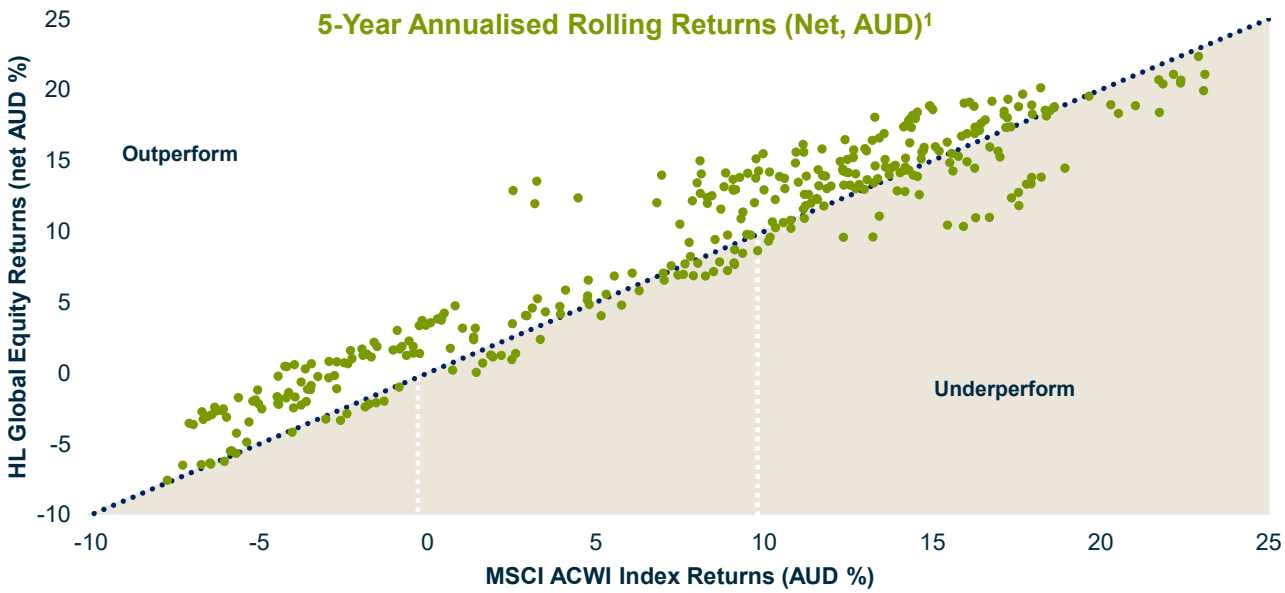
The Central Question: Poor Stocks… Good Companies or Bad Companies



Source: HOLT, FactSet, MSCI Inc.

HARDING LOEVNERS CONSISTENT RESULTS FOR OUR CLIENTS

Our decision-making has produced a distinctive pattern of performance



HL Outperformance Frequency (All Periods: 74%)

Falling Markets	Moderate Markets	Strong Markets
MSCI < 0	0 < MSCI < 10	MSCI > 10
88%	75%	69%

	HL Global Equity*	MSCI*
Alpha %	2.11%	
Beta	0.91	
R-Squared	0.82	
Standard Deviation %	12.64%	12.61%
Tracking error	5.43%	
Information Ratio	0.39	
Sharpe Ratio	0.34	0.18
Upside Capture %	99.47%	
Downside Capture %	85.89%	

*since inception on November 30, 1989

Prior to June 2021, the Harding Loevner Global Equity Strategy performance has been simulated by Pengana from the monthly gross returns of the Harding Loevner Global Equity strategy. This simulation was done by converting the USD gross returns to AUD, then applying a management fee of 0.974% p.a. (the Class B management fee). Net performance figures are after all fees and expenses and assume reinvestment of distributions. MSCI refers to the MSCI AC World Total Return Index (net, AUD) 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.

1. November 30, 1989 (strategy inception) to February 28, 2023

PENGANA HARDING LOEVNER INTERNATIONAL FUND

FOR MORE INFORMATION

pengana.com/internationalfund

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