# ASX: PIA

# PENGANA INTERNATIONAL EQUITIES LIMITED

The largest International Ethical LIC on the ASX

Targeting fully franked dividends, paid quarterly

## Appendix 4E

**Preliminary Final Report for the year ended 30 June 2022**

**Results announcement to the market:**

| | 30 June 2022 $'000 | 30 June 2021 $'000 | Change from the corresponding period % |
|---|---|---|---|
| Income from ordinary activities | **(79,350)** | 90,520 | (188)% |
| Profit from ordinary activities after tax attributable to members | **(61,651)** | 59,988 | (203)% |
| Basic and diluted earnings per share (cents per share) | **(24.14)** | 23.57 | (202)% |

| **Dividend Information** | **Cents per share** | **Franked amount per share** | **Tax rate for franking** |
|---|---|---|---|
| 2022 First interim dividend (paid 15 December 2021) | 1.35 Cents | 1.35 Cents | 30.0% |
| 2022 Second interim dividend (paid 15 March 2022) | 1.35 Cents | 1.35 Cents | 30.0% |
| 2022 Third interim dividend (paid 15 June 2022) | 1.35 Cents | 1.35 Cents | 30.0% |
| 2022 Final dividend (declared 2 August 2022 and to be paid 15 September 2022) | 1.35 Cents | 1.35 Cents | 25.0% |

| **Final Dividend Dates** | |
|---|---|
| Ex-dividend Date | 31 August 2022 |
| Record Date | 1 September 2022 |
| Last date for DRP | 2 September 2022 |
| Payment Date | 15 September 2022 |

**Dividend Reinvestment Plan**

The Dividend Reinvestment Plan (DRP) is active and available to shareholders for the final dividend of 1.35 cents per share, which is franked at 25.0% (2021: 30.0%). Participating shareholders will be entitled to be allotted the number of shares which the cash dividend would purchase at the relevant price. The relevant price will be the weighted average sale price of all shares in the Company sold on the Australian Securities Exchange during the five trading days commencing on and including the Record Date, with no discount applied.

| **Net Tangible Assets Per Share** | **30 June 2022** | **30 June 2021** |
|---|---|---|
| Net Tangible Assets (before tax on unrealised gains/losses) per share | **$1.08** | $1.47 |
| Net Tangible Assets (after tax on unrealised gains/losses) per share | **$1.12** | $1.42 |

**Dividends paid during the year totalled 5.4 cents per share and comprised:**

| **Dividends Paid** | **Date Paid** | **Amount (cps)** |
|---|---|---|
| The final dividend for the 2021 financial year 1.35 cents per share franked at 30.0% | 22 September 2021 | 1.35 |
| The first interim fully franked dividend for the 2022 financial year 1.35 cents per share franked at 30.0% | 15 December 2021 | 1.35 |
| The second interim fully franked dividend for the 2022 financial year 1.35 cents per share franked at 30.0% | 15 March 2022 | 1.35 |
| The third interim fully franked dividend for the 2022 financial year 1.35 cents per share franked at 30.0% | 15 June 2022 | 1.35 |

This report is based on the Annual Report which has been audited by Ernst & Young. The audit report is included with the Company's Annual Report which accompanies this Appendix 4E.
All the documents comprise the information required by Listing Rule 4.3A.
For further information on the results for the Company refer to the Chairman's report to shareholders and the Investment Manager's Report contained in the attached Annual Report.

ASX: PIA

# PENGANA INTERNATIONAL EQUITIES LIMITED

30 JUNE 2022

## ANNUAL REPORT

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**PENGANA.COM/PIA**

ANNUAL REPORT

ASX: PIA

# PENGANA INTERNATIONAL EQUITIES LIMITED

# COMPANY PROFILE

Pengana International Equities Limited is an Australian Listed Investment Company whose operating activity involves investing its Australian capital into businesses that are listed on global security exchanges.

The Company is listed on the Australian Securities Exchange ("ASX") under the code PIA.

PIA's investment manager is Pengana Investment Management Limited ("PIML"), a wholly owned subsidiary of Pengana Capital Group (PCG). PCG also provides financial management and marketing support.

Harding Loevner LP ("Harding Loevner") is PCG's investment team for PIA. Harding Loevner is a New Jersey-based global equity fund manager formed in 1989. PCG's partnership with Harding Loevner provides Australian retail investors exclusive access to Harding Loevner's extensive global expertise, usually only accessible to institutional investors.

## Corporate objective

PIA's objective is to provide shareholders with capital growth from investing in an ethically screened and actively managed portfolio of global businesses in addition to providing shareholders with regular, reliable and fully franked dividends.

## Investment strategy

The strategy to invest globally in high-quality, growing businesses based on disciplined industry research has been implemented by Harding Loevner since 1989.

The strategy seeks superior risk-adjusted returns, generated through investing in companies that meet the investment team's high quality and durable growth criteria at reasonable prices.

These companies are identified through the conduct of fundamental research, with a long-term, global perspective, and must exhibit the following four key investment criteria: competitive advantages, quality management, financial strength, and sustainable growth potential.

## Responsible Investment

The Company is committed to responsible investing and seeks to avoid investing in businesses that are, in its opinion, currently involved in activities that are unnecessarily harmful to people, animals or the environment.

The Company invests in businesses selected through Harding Loevner's Responsible Investment process that pass PCG's ethical screens.

### Ethical Screens

PCG utilises a screening process which seeks to avoid investment in companies that derive significant operating revenues from direct and material business involvement in these sectors:

| | | |
|---|---|---|
| Adult content | Gambling | Mining |
| Alcohol | Genetically modified organisms | Nuclear |
| Animal cruelty (production of cosmetics tested on animals) | Human rights abuses and exploitation | Securities from issuers on UN sanctions list |
| Fossil fuels (coal, coal seam gas, oil) | Old growth forest logging | Tobacco<br>Weapons |

### Responsible Investment Process - Incorporation of Environmental, Social and Governance (ESG) Factors

Harding Loevner's investment selection approach, by its design, eschews companies engaging in unsustainable business practices or pursuing short-term profits at the expense of long-term growth and stability. Harding Loevner believes only companies that can create substantial long-term value are capable of producing meaningful "shared value" for the benefit of larger society as well as for shareholders and other direct stakeholders.

Harding Loevner includes an explicit consideration of ESG risk factors into equity security evaluation. Competitive advantage, sustainable growth, financial strength, and quality management are the criteria by which Harding Loevner judges whether a company can sustain high returns on capital. ESG factors are among those that may pose risks to a company's ability to continue to meet one or more of these criteria. Such risks are therefore considered at each stage of Harding Loevner's investment process.

### Responsible Ownership

Harding Loevner is an active owner and has clear engagement policies in place with the aim of protecting and furthering the financial interests of its clients, the asset owners.

Harding Loevner votes all proxies with its clients' best interest in mind. As active owners, Harding Loevner seek to use its voting power to promote high standards of corporate governance, including provision of adequate disclosure of company policies, activities, and returns, as well as fair and equitable treatment of shareholders.

## Benefits of investing in PIA

| | |
|---|---|
| Skilled investment team | Focus on risk and return |
| A truly active strategy | Responsible investment process |
| Investment in high quality businesses at compelling valuations | Investment approach that is suitable across differing market environments |

## Benefits of investing in PIA's LIC structure

Quarterly fully franked dividends

Shares can be bought and sold on the ASX

Investment activities are not affected by redemptions or unexpected cash inflows or outflows

Regular reporting to shareholders e.g. semi-annual financial reports, monthly performance reports and weekly NTA

Shareholders can interact with directors and management

The company is subject to ASX and ASIC supervision

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# CHAIRMAN'S LETTER

Dear shareholders,

Global investment markets started the 2022 financial year positively reaching highs in December 2021. PIA's portfolio performed well in this period and the company reported first half net profit after tax of $19.1 million and paid two fully franked dividends of 1.35 cents per share each.

In the period from December 2021 to the end of the financial year, a fast and complex shift in macroeconomic fundamentals resulted in a sell off of equity markets around the globe. Zero Covid policies in China and the war on Ukraine further pressured supply chains, increased energy costs and dashed hopes of transient inflation. Central banks reacted by tightening monetary policy and lifting interest rates earlier and more aggressively than investors anticipated.

The value of PIA's portfolio of quality growth companies reduced by more than the market. The Harding Loevner investment team that manages the Company's investments reviewed the operating performance of the companies in the portfolio and concluded that many of the investments had been oversold. Consequently, the portfolio continues to hold businesses that have strong fundamentals – with higher profit margins, higher return on assets and lower risk than the broader index.

The fall in value of the portfolio resulted in the Company reporting unrealised losses at the 30 June 2022 of $84.2 million and a net loss after tax of $61.4 million for the year.

Importantly for our shareholders who rely on the consistency of PIA's dividend, the Company has continued to pay its quarterly, fully franked dividends of 1.35 cents per share.

In the Investment Manager's report that follows, Harding Loevner dissects the contributors to the performance for the financial year and provides its outlook for the portfolio.

## Financial Position

At 30 June 2022, total assets were valued at $287.5 million and included $264.6 million of investments in businesses listed on global securities exchanges and $10.8 million in cash.

The Company has no debt and is well positioned to take advantage of mispricing opportunities that may arise.

The Net Tangible Asset Backing (NTA) after provision for tax on unrealised gains was $1.12 on 30 June 2022.

| | June 2022<br>$ million | June 2021<br>$ million |
|---|---|---|
| Cash & liquids | 11 | 7 |
| Investments | 265 | 373 |
| Tax assets | 13 | - |
| **Total assets** | **289** | **380** |
| Payables | (1) | (5) |
| Tax on unrealised gains | - | (13) |
| **Net assets** | **288** | **362** |
| | **$ per share** | |
| NTA before tax on unrealised income and gains/losses | $1.08 | $1.47 |
| NTA after for tax on unrealised income and gains/losses | $1.12 | $1.42 |

## Dividends

In 2022, PIA met its objective to pay quarterly fully franked dividends even though the Company reported a net loss.

In the financial year, the Company declared $13.8 million in fully franked dividends to shareholders, representing a 6% increase on the total dividends declared in the prior year.

As aggregated turnover for the financial year was under $50 million, PIA qualified for the lower tax rate of 25% and consequently dividends paid in the 2023 financial year will be franked at the 25% tax rate.

A final quarterly dividend of 1.35 cents per share, fully franked at the 25% tax rate was declared on 2 August 2022 and will be paid on 15 September 2022 to shareholders on the register on 1 September 2022. This brings the total fully franked dividends declared out of the 2022 financial year profit to 5.4 cents per share, in line with the Company's target dividend.

After providing for the final dividend, PIA has a franking account balance and sufficient profit reserves to sustain an annual fully franked dividend of 5.4 cents per share through to the 2025 financial year, assuming the tax rate remains at 25%.

An annual dividend of 5.4 cents per share provides a yield of 4.9% based on the 18 August 2022 closing price of $1.10 per share. With the benefit of full franking at the 25% tax rate, the yield increases to 6.5%.

## Share Price

The Company's share price at 30 June 2022 was $0.88. As equity markets have advanced, the share price has since recovered to $1.10 at 18 August 2022.

For much of the financial year the Company's shares traded at values close to its net tangible assets after provision for tax on unrealised gains (after-tax NTA). However, the share price discount to after-tax NTA widened with continued volatility in equity markets in June 2022. In the current year to date this discount has once again narrowed.

Reliable fully franked dividends, improved investment performance and ongoing promotion of the benefits of an investment in PIA to both retail investors and financial advisers are the keys to narrowing the discount at which the shares trade.

## Capital Management

The Company has a sound capital structure with total equity of $288 million and no debt. There are over 6,500 shareholders, who together own 256 million shares.

In the 2022 financial year, there were 954,000 shares issued through the Dividend Reinvestment Plan at the weighted average sale price of all shares in the Company sold on the Australian Securities Exchange during the five trading days commencing on and including the relevant Record Date, with no discount applied.

The Company has put in place the mechanism for an on market buyback of up to 10% of its shares over the following twelve months commencing on 22 August 2022.

The buyback may be actioned when it is considered that it provides a better long term benefit to continuing shareholders than an alternative investment of funds.

## Outlook

While financial markets continue to grapple with inflation, tightening monetary policy and geo political risks, investment markets are likely to remain volatile.

Your directors continue to support adherence to the quality growth investment strategy to which Harding Loevner has consistently adhered for over 33 years and which has an impressive track record of medium term outperformance.

Seeking and holding, companies with strong quality-growth characteristics that have been mis-priced by the broader market is the key to future out-performance.

In the meantime the benefits of an investment in PIA will continue to be promoted to financial advisers and investors with such activities supported by favourable ratings from key research houses.

## Communication

It is the Board's aim to ensure shareholders are provided with regular, concise and timely updates on Company matters.

The Company produces Monthly Performance Reports and each week it announces its NTA to the ASX. In addition, its Investment Manager conducts regular webinars. All these reports and webinars are available on the Company's website www. pengana.com/pia.

While the primary method of communication is email, a calling campaign was undertaken in 2021 to engage with shareholders not receiving regular email updates.

In May 2022, the Company undertook its first roadshow since 2019. Representatives from Harding Loevner, Pengana Capital Group and I met with shareholders in Sydney and Melbourne. As Covid related concerns and restrictions ease, we hope to expand future roadshows beyond the two major capital cities.

I am pleased to report that representatives from Harding Loevner will be in Sydney to address shareholders at the Company's Annual General Meeting later this year.

## Annual General Meeting

Our AGM in October this year will, after two years, revert to an in-person meeting in Sydney.We greatly appreciate your support and look forward to seeing you at the 2022 Annual General Meeting.

F Gooch

Frank Gooch
**Chairman**
**Pengana International Equities Limited**
**19 August 2022**

# INVESTMENT MANAGER'S REPORT

## Introduction

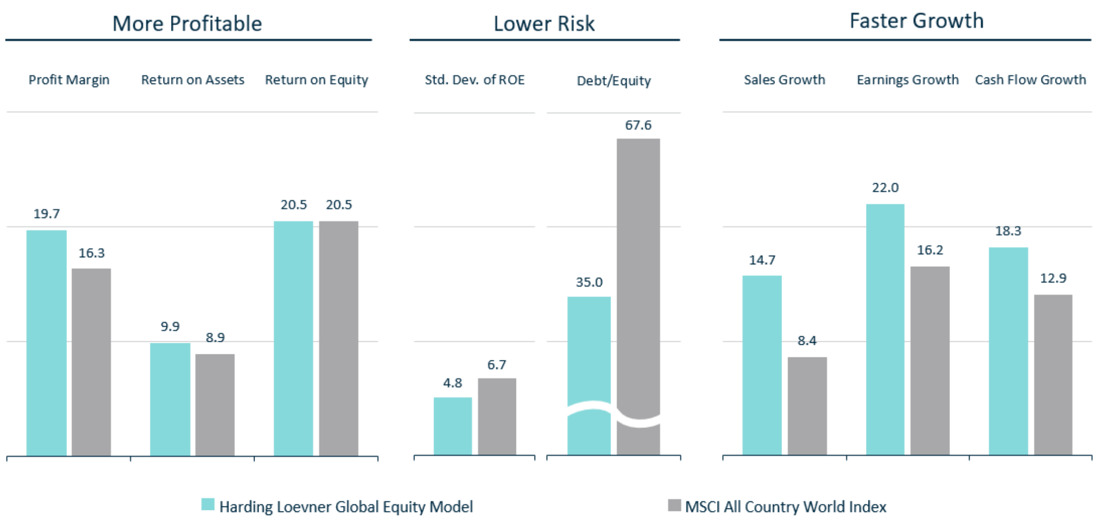
The portfolio comprises investments in high quality growing businesses that are expected to outperform the market over the long term.

Historically, overweight positions in the highest-quality companies have helped maintain portfolio value during periods of market weakness. Quality refers to a company's level of profitability, earnings growth, stability of earnings, debt levels etc. However, during the market correction witnessed in the first half of calendar year 2022, high quality companies underperformed the broader share market.

Most of the companies in the portfolio have continued to report reasonably solid earnings results. However, the recent style-shift in the market away from higher growth companies towards favouring value stocks, and fears of a global economic slowdown, have impacted portfolio returns.

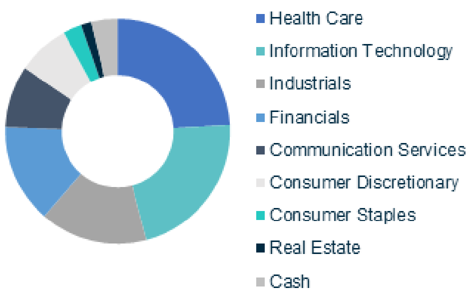
2021-22 was the first full financial year in which the portfolio has been managed by Harding Loevner.

## Quality and Growth Investment Philosophy

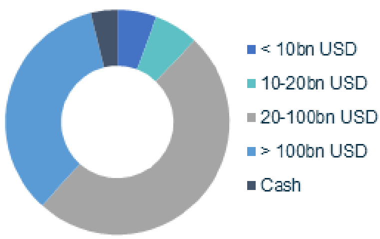



## Diversification

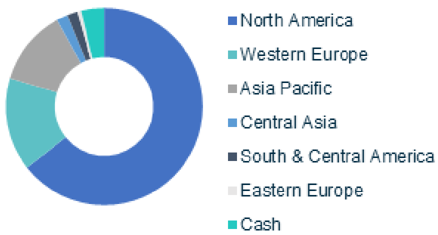
**Sector Breakdown**




**Capitalisation Breakdown**




**Region Breakdown**



The quality growth investment style is expected to perform well over the long term. Moreover, the recent equity market correction leaves the investment team better able to identify excellent companies that have become attractively valued and to deliver positive returns over the medium-term. While quality growth companies are generally more highly valued than their lower quality, lower growth peers, the premium has fallen dramatically over the last year.

## Market Review

Global stock prices have fallen significantly since the turn of the calendar year. Inflation in most developed economies has reached the highest levels in a generation. Lingering supply chain disruptions, food and energy shortages worsened by the Ukrainian conflict and resurgent consumer demand post-pandemic have all contributed to rising prices. Central banks, having previously insisted that price pressures were transitory, have been forced to raise interest rates, setting out aggressive plans to restore price stability.

The US Federal Reserve increased interest rates by 0.75% to 1.75% at its June meeting, the largest single increase in 28 years. This followed a worse-than-expected 8.6% rise in consumer prices in May and it pledged to increase rates until inflation is brought back under control.

Central bankers in the UK, Canada, Australia, and Switzerland all raised interest rates towards the end of the period, along with numerous emerging market (EM) central banks. The European Central Bank, despite economic growth faltering across the Eurozone, previewed a rate increase from 0% to 0.5% in July, which will be its first in 11 years, and hinted at additional hikes in the months ahead. An exception was the Bank of Japan, which remains committed to its ultra-accommodative monetary policy.

All these factors weighed on the economic outlook; in the World Bank's most recent forecast, it predicted global growth to slow to 2.9% in 2022. This is a marked drop from the 4.1% growth it forecast a mere five months earlier.

## Performance Commentary

Over the previous two years, valuation risks have been a concern, leading to a reduction in the portfolio's exposure to stocks trading at price levels that appear excessive. However, companies able to reliably grow their earnings generally remained particularly highly valued by the market throughout 2021.

When the market trended lower over the first half of calendar 2022, it particularly impacted share prices of the more highly valued quality growth companies, such as those predominantly held in the portfolio. In this environment, value stocks have tended to fare relatively better, leading to a period of relative underperformance by the portfolio since November 2021.

Higher inflation has led central banks to raise interest rates, which is intended to slow economic growth and which will impact company earnings. Higher interest rates also bring an increase in equity discount rates, which are the rates at which analysts discount future company earnings and dividends to calculate a company's value.

Valuations of quality growth companies – whose earnings predominantly lie further out into the future – tend to be more sensitive to rising equity discount rates. The portfolio has generally focussed on the fastest growing companies, which have been the most impacted by the market adjustment. Hence the portfolio underperforming the market during this period.

The portfolio's investments in Chinese companies also detracted from relative returns this year. The portfolio had on average double the market weighting to this market over the period, however China was one of the worst-performing markets in the global index.

The sudden and severe regulatory changes implemented by the Chinese government impacted corporate earnings across various industries and caused investors to reduce their exposure to Chinese stocks. The government also instituted sweeping lockdown measures in early 2022, amid a fresh wave of COVID-19 cases in major Chinese cities. Some of these measures were later lifted, and the positive sentiment led to China being the only major market that saw positive returns during the second quarter of 2022.

Shares of high-quality growth companies (such as those held in the portfolio) have underperformed the market alongside a much wider spectrum of other highly-valued growth stocks during the ongoing market downturn. There can be no certainty that the share prices of these high-quality companies have yet passed their lowest point in the current market cycle. However, while the valuations of high-quality companies remain elevated relative to those of lower-quality companies, that premium has declined significantly during this year's market sell-off. It may be expected that over time "good companies" will again become "good stocks" and outperform the market.

Weaker macroeconomic factors and the large style-shift away from quality growth stocks were not the only issues that impacted performance. Underperforming US stocks weighed most heavily on relative performance. The portfolio also underperformed in Emerging Markets (China), and the Eurozone (Germany). The portfolio's underweight in Japan contributed modestly to relative returns.

The following comments summarise some of the stock-specific issues that impacted relative returns - both positively and negatively.

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**Vertex Pharmaceuticals** in the US has strongly outperformed the market over the past 12 months. This followed reported progress in its drug research pipeline while competitors' efforts to develop a rival to its cystic fibrosis treatment have been less successful. The company has demonstrated a low sensitivity to the fortunes of the wider global economy, interest rate cycle and share market.

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The portfolio established a position in the French luxury goods group **Kering** towards the end of the financial year. This came when weak consumer demand in its key market China, led to its shares becoming more attractively priced. The company is profitable, generates good free cash flow, carries little net debt and has an impressive track record of delivering innovation and growth. It has since performed strongly, continuing to deliver solid earnings growth as it diversifies away from its concentration on the Gucci brand.

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US-based health care company **Align Technology** produces 3D-printed teeth-straightening systems, which saw increased demand during the height of the pandemic. Having warned in late 2021 that rising Omicron cases would suppress first-quarter 2022 growth, it later withdrew its 2022 guidance when spending on discretionary health spending fell. This led the company to underperform the market.

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In the US, e-commerce company **Etsy**, underperformed the market as data showed weaker retail sales in its home market relative to the prior year.

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**WuXi Biologics**, a China-based biotech research and manufacturing services supplier also detracted from relative performance. In February, the company was placed on a US "unverified list" of importers when COVID-19 prevented US regulators inspecting its production facilities. The stock subsequently underperformed the market, despite an 83% year-on-year increase in revenue and a doubling of its adjusted net profits. Inspections are now starting to resume.

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In China, the portfolio's other main detractor was **Country Garden Services** It was impacted by negative sentiment to the real estate sector as development projects stalled. This was despite its strong recurring income from services provided to established communities.

Shares of German remote-access and remote-control software company **TeamViewer** declined sharply after the company reported disappointing results. Billings' growth, revenue, and earnings before interest, tax, depreciation and amortisation (EBITDA) margins were all below expectations. The company also saw the departure of its Chief Financial Officer and Chief Marketing Officer. The position was sold in March 2022.

In the eurozone, **Schneider Electric**, the French leader in energy management engineering, underperformed upon concerns about the impact of the Shanghai lockdowns on its manufacturing and distribution in China, as well as broader supply chain and recession fears.

In Finland, the CEO of **Neste**, a producer of renewable biofuel, resigned unexpectedly at a difficult moment for the company. Neste has been struggling with inflation, scarcity in its commercial cooking-oil-waste raw material chain and completing construction of a large new aviation fuel plant in Singapore. The stock was sold in the first quarter of 2022.

## Outlook

Harding Loevner is committed to consistently investing in reasonably priced shares of high-quality growing businesses. Through owning shares in such companies, the portfolio benefits from the compounding of economic value creation, which is the foundation for long-term investor returns.

Harding Loevner invests in high-quality businesses because they typically create more economic value and are more resilient when economies slow. High-quality businesses can sustain their profitable growth over multiple businesses cycles, and there is greater visibility into their long-term cash flows.

Harding Loevner also has a strong focus on modelling uncertain future cash flows, discounting them to account for risk and continually monitoring fluctuations in valuations. This helps identify when to take advantage of price declines in the shares of fundamentally strong businesses. Alternatively, it informs when it is prudent to reduce exposure to strong but highly valued businesses. Returns are highly dependent on purchase and sale prices.

While valuations of the fastest-growing companies have been a cause for concern, it would be unwise to invest in less robust businesses in the hopes of timing stock market cycles successfully. The portfolio invests in companies whose growing revenues are matched by strong balance sheets and solid profitability. This approach aims to moderate extreme valuations by steering clear of more speculative growth companies.

The insistence that companies in which the portfolio invests meet quality and growth criteria is not just philosophical, it is also a risk control. The research process requires evaluation of a company in terms of quality and growth before its market valuation is considered. This is because assessing valuation too early in the process can cloud judgment about business fundamentals.

Hence, consideration of valuation is left to the end. Consequently, some good-performing stocks of not-so-good companies will be missed by the process. Moreover, a great deal of time and effort may be spent identifying and monitoring good companies whose stocks never become sufficiently attractively priced to be invested.

Significant uncertainty remains regarding when supply disruptions will abate, the outcome of the Ukraine conflict, how far central banks will go to tame inflation and the impact of higher interest rates. Hence the portfolio remains focused on industry structure, management quality, and competitive advantage of the companies in which it invests.

# RESPONSIBLE INVESTMENT

PIA has been committed to responsible investing since its incorporation in 2004. It seeks to avoid investing in businesses that are currently involved in activities that are unnecessarily harmful to people, animals or the environment.

The investment manager, PCG, is also committed to responsible investing and is a member of the Responsible Investment Association Australasia (RIAA), and a signatory to the UN's Principles for Responsible Investment (PRI). PCG utilises an ethical screening process which forms an essential part of the investment selection process.

PCG's investment team, Harding Loevner, has adopted a responsible approach to investing, details of which are shown below.

PCG's Risk Team, provides oversight of Harding Loevner's compliance with its ethical and ESG mandate. In addition PCG's ESG Committee utilises a monitoring service provided by Sustainanlytics to monitor ESG and carbon risk exposures, voting and engagement activity.

## Ethical Screens

Ethical screens are in place to avoid investment in companies that derive significant operating revenues from direct and material business involvement in these sectors:

| | | |
|---|---|---|
| Adult content | Alcohol | Animal cruelty (production of cosmetics tested on animals) |
| Fossil fuels (coal, coal seam gas, oil) | Gambling | Genetically modified organisms |
| Human rights abuses and exploitation | Mining | Nuclear |
| Old growth forest logging | Securities from issuers on UN sanctions list | Tobacco |
| Weapons | | |

## How Harding Loevner Invests Responsibly

Harding Loevner's responsible approach to investing which encompasses the following dimensions[1]:

### 1. Responsible Investment Selection

a. Governance screening: eliminating securities of poorly governed companies;
b. ESG integration: considering Environmental, Social and Governance risk and return factors in the security selection process;
c. Client-directed screening: eliminating securities of companies engaged in activities or practices that it's client, the asset owner, seeks to avoid;
d. ESG benchmarking: managing portfolios with reference to ESG-influenced market indices selected by its client, the asset owner; and

[1] We acknowledge our debt to AQR and the PRI for suggesting this framework for organizing a discussion of the various aspects of investing responsibly. AQR, Clearing the Air: Responsible Investment, (May 2019)

e. Accountability for ESG incorporation: overseeing and implementing responsible investment policies.

## 2. Responsible Ownership

a. Management engagement: engaging with managements of companies in which Harding Loevner have invested for the purpose of influencing their behaviour for the benefit of public shareholders such as its clients, the asset owners, including with respect to managements' consideration of ESG issues that affect expected risks and returns;
b. Voting: voting all proxies in the interests of its clients, the asset owners, as Harding Loevner best determine or as they direct;
c. Policymaker engagement: advocating for the interests of asset owners; and
d. Institutional support for Responsible Investing: adhering to the Principles for Responsible Investment and the UK Stewardship Code.

# Harding Loevner Responsible Investment Selection

Harding Loevner is a global equities manager seeking to achieve superior risk-adjusted returns for its clients by identifying high-quality, sustainably growing companies through in-depth fundamental analysis. Companies that operate with disregard for their environment, for the societies in which they pursue their business, or for the principles of governance by which they should be supervised on behalf of shareholders put at risk their long-term cash flows and share price. Therefore, consideration of environmental, social, and corporate governance (ESG) issues is intrinsic to Harding Loevner's investment process. Harding Loevner's investment selection approach, by its design, eschews companies engaging in unsustainable business practices or pursuing short-term profits at the expense of long- term growth and stability. Harding Loevner believes only companies that can create substantial long-term value are capable of producing meaningful "shared value" for the benefit of larger society as well as for shareholders and other direct stakeholder[2].

## Governance Screening

At the outset of their assessment of a company, the responsible analyst completes a 14-point corporate governance checklist to ensure Harding Loevner eliminates companies with demonstrably poor governance from further consideration.

## ESG Integration

Harding Loevner includes in its equity security evaluation an explicit consideration of ESG risk factors. Competitive advantage, sustainable growth, financial strength, and quality management are the criteria by which Harding Loevner judges whether a company can sustain high returns on capital. ESG factors are among those that may pose risks to a company's ability to continue to meet one or more of these criteria. Such risks are therefore considered at each stage of its investment process.

[2] Michael E. Porter, George Serafeim & Mark Kramer, "Where ESG Fails," Institutional Investor, (October 16, 2019)

For each company under Harding Loevner's coverage, the responsible analyst evaluates 38 distinct ESG risk factors, assigning a score to each to reflect the analyst's level of concern regarding its potential impact on the company's ability to grow profitably and sustainably. The Scorecard provides a consistent framework for comparing companies' potential ESG risks across all industries and geographies. The potential ESG risk factors addressed in the Scorecard include, for example, water consumption, waste generation and disposal, CO2 emissions, labour relations, treatment of stakeholders, and independence of Board of Directors. ESG risks of concern will affect the analyst's long-term forecasts of a company's growth, margins, capital intensity, and competitive position. In addition, a company's overall ESG Score is an input into Harding Loevner's valuation model that influences the projected duration of future cash flow growth.

Portfolio managers consider ESG factors among other factors affecting risk and expected returns when constructing portfolios from qualified investments.

## Harding Loevner Responsible Ownership

### Management Engagement

Harding Loevner is an active owner and has clear engagement policies in place with the aim of protecting and furthering the financial interests of its clients, the asset owners. Harding Loevner's analysts engage regularly with company managements in the course of their fundamental research and monitoring of qualified companies. An analyst will formally engage with management to express concern or disagreement with a proposed or decided course of action, including on issues related to shareholder welfare or other ESG concerns. This engagement often arises in the context of proxy voting: whenever Harding Loevner casts a vote against management's recommendation, the responsible analyst is required to write to management to highlight and explain the basis for Harding Loevner's dissent.

If Harding Loevner believes that weak corporate governance, or other ESG issues, at a company results in unacceptably high investment risk, Harding Loevner's usual course of action is disinvestment.

While Harding Loevner generally prefers to engage with companies independent of other investment firms, Harding Loevner will consider coordinating with other institutional investors if Harding Loevner thinks doing so would produce better financial results for Harding Loevner's clients and could be undertaken in compliance with regulations concerning collective action.

### Voting

Wherever clients have delegated authority to us, Harding Loevner votes all proxies with its clients' best interest in mind. As active owners, Harding Loevner seek to use its voting power to promote high standards of corporate governance, including provision of adequate disclosure of company policies, activities, and returns, as well as fair and equitable treatment of shareholders.

We aim to vote in favour of management proposals that Harding Loevner believes will benefit shareholders. Harding Loevner supports company boards in aligning management with shareholder returns through remuneration policies. In addition, Harding Loevner supports board independence, including in the composition of individual committees as well as the board overall. Harding Loevner demands that firms maintain adequate disclosures, provide clear information in financial reporting, and offer regular access to shareholders. If a company proposes a policy that Harding Loevner believes will damage long- term shareholder value, Harding Loevner will vote against it.

The analyst responsible for a company determines how to vote on proposals in accordance with the general principles that Harding Loevner has laid out. To support analysts' independent consideration of proposals, Harding Loevner obtains research and recommendations from corporate governance consultant Glass Lewis. Complex or controversial issues are subjected to internal debate by Harding Loevner's investment team, with the ultimate decision remaining with the responsible analyst, who knows the company best. Harding Loevner records all votes—along with the rationale for its deviations from the recommendations of management—and disclose Harding Loevner's votes to the respective asset owners upon request. All votes against recommendations of management are a basis for required engagement with management.

Annual voting records are published on the Company's website.

# DIRECTORS' REPORT

The Directors present their report on Pengana International Equities Limited ("the Company"), for the financial year ended 30 June 2022.

## Directors

The names of Directors in office at any time during or since the end of the year are:

| | |
|---|---|
| Francis Gooch | Independent Non-Executive Director and Chairman |
| Russel Pillemer | Managing Director |
| David Groves | Non-Executive Director |
| Sandi Orleow | Independent Non-Executive Director |

Directors have been in office since the start of the financial year to the date of this report, unless stated otherwise.

### Information on Directors

During the year, the following persons held office as Director:

**Francis (Frank) Gooch - B.Bus, CPA**

*Independent, Chairman (appointed Non-executive Director 5 June 2017, Chairman 6 December 2017)*

Mr Gooch was appointed as a Non-executive Director of the Company by the Board on 5 June 2017 and was elected by shareholders at the Company's 2017 Annual General Meeting. On 6 December 2017 he was appointed Chairman of Directors. He is also a member of the Company's Audit, Risk and Compliance Committee.

Mr Gooch has over 26 years' experience in the LIC industry after having been an executive of Milton Corporation Limited since 1996. He became Chief Executive in 1999 and was made the Managing Director in 2004. Mr Gooch retired from Milton on 31 July 2018.

Mr Gooch has also served as chairman of the LIC industry body, Australian Listed Investment Companies Association. Prior to joining Milton Corporation Limited Mr Gooch was an executive at Macquarie Bank Limited for 11 years.

**Russel Pillemer - B.Com, CA**

*Non-independent, Managing Director (appointed Non-executive Director 5 June 2017, Managing Director 21 February 2019)*

Mr Pillemer is the Managing Director of the Company.

Mr Pillemer is also a Director and Chief Executive Officer of Pengana Capital Group Limited.

Mr Pillemer co-founded Pengana in 2003 and has been its Chief Executive Officer since inception. Prior to founding Pengana, Mr Pillemer 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. Mr Pillemer was previously Chairman of Centric Wealth Group and a Principal of Turnbull Pillemer Capital.

He is a Chartered Accountants in Australia and New Zealand member and has a Bachelor of Commerce (Hons) from the University of New South Wales.

# Directors Report (continued)

## Information on Directors (continued)

**David Groves - BCom., MCom., CA**

*Non-independent, Non-executive Director (appointed 13 January 2017)*

Mr Groves is a Non-executive Director of the Company. He is also a member of the Company's Audit, Risk and Compliance Committee.

Mr Groves has over 25 years' experience as a company director. He is Chairman of Tasman Sea Salt Pty Ltd and is a Non-executive Director of Pengana Capital Group Limited and Redcape Hotel Group Management Ltd as responsible entity of the Redcape Hotel Group. He is a former Director of EQT Holdings Ltd, Tassal Group Ltd and GrainCorp Ltd and a former executive with Macquarie Bank Limited and its antecedent, Hill Samuel Australia. Mr Groves is a member of the Council of Wollongong University. He is a member of Chartered Accountants Australia and New Zealand.

**Sandi Orleow - CFA, GAICD**

*Independent, Non-executive Director (appointed 1 September 2019)*

Ms Orleow is a Non-executive Director of the Company. She is also Chairman of the Company's Audit, Risk and Compliance Committee.

Ms Orleow 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, she 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. She established her own consulting business in 2011.

Ms Orleow is also a Trustee Director of Active Super, is a member of the Investment Advisory Board of ACT Treasury,  is a Director of the CFA Sydney Society and CFA Australia National Diversity Chair.

Ms Orleow is a CFA Charterholder, a graduate of the Australian Institute of Company Directors and a Banking + Finance Oath Signatory.

## Company Secretary

**Paula Ferrao - B. Bus**

*Company Secretary (appointed 2 June 2017)*

Ms Ferrao is the Company Secretary of the Company.

Ms Ferrao is also an executive of Pengana Capital Group Limited. Ms Ferrao was previously interim Chief Executive Officer of Hunter Hall International Limited from January 2017 until its merger with Pengana Holdings Pty Ltd on 1 June 2017. Prior to that she was Chief  Financial Officer of Hunter Hall International Limited since 2010.

Ms Ferrao has 21 years' experience in the funds management industry with strong expertise in financial reporting and tax for corporate entities, listed investment companies, managed investment schemes and public offer superannuation funds and in all aspects of fund operations.

# Directors Report (continued)

## Operating and Financial Review

### Company Overview and Principal Activities

Pengana International Equities Limited is an Australian Listed Investment Company whose principal operating activity is investing its Australian capital into ethically screened businesses that are listed on global exchanges.

The Company is listed on the Australian Securities Exchange under the code PIA.

Pengana Investment Management Limited, a subsidiary of Pengana Capital Group, is the Investment Manager of PIA and it provides investment management, financial management and marketing support. The Investment Manager has appointed New Jersey based Harding Loevner LP ("Harding Loevner") as the investment team for PIA.

### Operating results

The total investment loss for the year was $79.4m. Geo-political tensions, supply chain disruptions and the rebound from COVID restrictions have led to climbing inflation and accompanying interest rate rises. This has created significant downward pressure and volatility in equity prices over the course of the financial year, leading to a decrease in the fair value of investments of $81.4m (including $84.2 million of unrealised losses and $2.9 million of realised gains), compared with an increase of $86.1m in the prior year.

Total operating expenses reduced by $0.3m mainly driven by a reduction in transaction costs by $0.5m. Net loss after tax for the year was $(61.7) million, which equated to (24.14) cents per share.

The portfolio delivered a return, net of fees and expenses, of (23.3)% for the financial year ended 30 June 2022 versus the MSCI World Accumulation Net Return Index in Australian Dollars of (6.5)%. Performance figures refer to the movement in net assets per share, reversing out the payment of dividends, before tax paid or accrued on realised and unrealised gains.

### Financial Position

At 30 June 2022, the Company's equity investments were valued at $264.6 million and it held $10.8 million in cash. Total assets amounted to $288.4 million.

The Company's net tangible assets at 30 June 2022 stood at $287.5 million. The Company has no borrowings.

For further information on operating results and the financial position of the Company please refer to the Chairman's letter.

# Directors Report (continued)

## Dividends

| | June 2022 $'000 | June 2021 $'000 |
|---|---|---|
| Final fully franked dividend of 1.35 cents per share, franked at 25.0%, to be paid on 15 September 2022. (2021: Final fully franked dividend, franked at 30.0%, of 1.35 cents per share.) | **3,456** | 3,444 |
| Interim fully franked dividends, franked at 30.0%, of 1.35 cents per share paid on 15 December, 15 March and 15 June 2022 (2021: Interim fully franked dividends, franked at 30.0%, of 1.25 cents per share.) | **10,347** | 9,551 |
| | **13,803** | 12,995 |

### Dividend policy

The Board has adopted a dividend policy to pay stable, fully franked dividends on a quarterly basis, provided there are sufficient profit reserves and franking credits to distribute. The Company re-confirmed that its investment mandate supports its aim of delivering fully franked dividends.

## Coronavirus impact (COVID-19)

COVID-19 continued to impact global economies, equity, debt and commodity markets during the financial year.

The processes to determine the impact of COVID-19 for these financial statements is consistent with the processes disclosed and applied in the 30 June 2021 and 31 December 2021 financial statements. Such processes have identified that no asset impairments have been required as the Company's equity investments are classified as level 1 in the fair value hierarchy (as defined in Note 15 to the financial statements) and marked-to-market with reference to quoted prices on stock exchanges. In addition, our assessment of expected credit losses has remained unchanged on the Company's receivables, which comprise interest on cash balances and dividends, as they have since been collected or the counterparties have been assessed to have strong credit ratings.

## Russia-Ukraine conflict

The Directors of the Company acknowledge the market disruptions associated with current geopolitical events. These have and will continue to have a global impact and uncertainty exists as to their implications.

This is one of the many factors that are evaluated when making investment decisions for the fund.

# Directors Report (continued)

## Strategy and future outlook

The Company aims to meet its investment objective of generating long-term consistent returns whilst reducing volatility and the risk of losing capital, and to pay a stable stream of fully franked dividends to our shareholders.

The Board is continuously seeking to improve communication with shareholders, deploy value creating capital management strategies and being disciplined in managing the Company’s expenses.

The Company’s portfolio is primarily invested in equities and given the volatility in investment markets it is extremely difficult to forecast profit for the coming year. The Company provides weekly NTA announcements to the Australian Securities Exchange (ASX), and they can also be accessed via the website of the Company's Investment Manager: www.pengana.com

Whilst the portfolio is currently unhedged the Company may use forward foreign exchange contracts for risk management purposes.

## Significant changes in the state of affairs

There were no other significant changes in the state of affairs during the reporting period.

## Events subsequent to balance sheet date

On 2 August 2022 the Board declared a final fully franked dividend of 1.35 cents per share franked at 25%, in line with the Company’s stated dividend policy. This brings the total fully franked dividend for the year ended 30 June 2022 to 5.4 cents per share.

The Board has resolved to put in place the mechanism to allow for an on-market buyback of up to 10% of the Company's shares over the following twelve months commencing 2 August 2022. The buyback may be actioned when the Board considers that it provides a better long term benefit to continuing shareholders than an alternative investment of funds.

Based on the closing share price at 18 August 2022 of $1.10, the 5.4 cps fully franked dividends declared for the financial year to 30 June 2022 represent a yield of 4.9%, or 6.9% when grossed up for the franking credits attached to the dividends declared. The Board expects that dividends declared for the 2023 financial year will be franked at a 25% tax rate, and on this basis the grossed up yield would be 6.5%.

The NTA after provision for tax on unrealised gains of the Company at 12 August 2022 was $1.21, an increase of $0.09 or 7.4% from the NTA of $1.12 recorded at 30 June 2022.

Other than the above, the Directors are not aware of any other matter or circumstance not otherwise dealt with in this financial report that has significantly or may significantly affect the Company's operations, the results of those operations or the Company's state of affairs in future years.

## Directors Report (continued)

# REMUNERATION REPORT (AUDITED)

The Board presents the Remuneration Report for the Company for the year ended 30 June 2022, which forms part of the Directors’ Report and has been prepared in accordance with the *Corporations Act 2001* and the *Corporations Regulations 2001*.

## 1. Remuneration Governance

The Company has no employees and so remuneration is limited to Directors' fees.

The Board is responsible for ensuring that the level of fees paid to the Directors is reasonable.

## 2. Details of key management personnel

Key Management Personnel (KMP) for the year ended 30 June 2022 are those persons who are identified as having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any Non-executive Director (NED) of the Company.

Names and positions held by Directors and Officers of the Company in office at any time during the financial year are:

| Name | Title | Appointment and resignation date |
|---|---|---|
| **Frank Gooch** | Independent Non-executive Director and Chairman | Appointed Independent Non-Executive Director 5 June 2017 and Chairman 6 December 2017 |
| **Russel Pillemer** | Managing Director | Appointed Non-Executive Director 5 June 2017, Managing Director 21 February 2019 |
| **David Groves** | Non-executive Director | Appointed 13 January 2017 |
| **Sandi Orleow** | Independent Non-executive Director | Appointed 1 September 2019 |

The Company has no employees. All operational and administrative duties are performed by Pengana Capital Group Limited (PCG), the parent company of the Investment Manager. No employees of PCG are remunerated by the Company. All KMP held their positions for the whole of the year ended 30 June 2022.

# Directors Report (continued)

# Remuneration Report (Audited) (continued)

## 3. Remuneration

### a. Remuneration Policy

Directors are remunerated by way of fees and superannuation contributions.

Each year the fees are determined by the Board of Directors who take into account the responsibilities, qualifications and experience of the directors as well as the demands made on directors and the remuneration of non-executive directors of comparable Australian companies.

Fees (including superannuation contributions):

| | 30 June 2022<br>$ | 30 June 2021<br>$ | Change<br>% |
|---|---|---|---|
| **Chairman** | 66,000 | 65,700 | 0.5 |
| **Non-Executive Directors** | 44,000 | 43,800 | 0.5 |

### b. Aggregate Fees Limit

The Aggregate Fee Limit available to directors of $250,000 was approved by shareholders in 2013.

### c. Equity-based Remuneration

Non-executive directors are remunerated by way of cash benefits. The Company currently has no intention to remunerate non-executive directors by any way other than cash benefits.

### d. Directors Remuneration

The following tables outline the remuneration provided to NEDs for the years ended 30 June 2022 and 30 June 2021.

| 30 June 2022 | Short-term benefits | Post-employment benefits | Total remuneration |
|---|---|---|---|
| **Non-executive Directors** | Directors' fees<br>$ | Superannuation<br>$ | Total<br>$ |
| **Frank Gooch** | 60,000 | 6,000 | **66,000** |
| **David Groves** | 40,000 | 4,000 | **44,000** |
| **Sandi Orleow** | 40,000 | 4,000 | **44,000** |
| | **140,000** | **14,000** | **154,000** |

| 30 June 2021 | Short-term benefits | Post-employment benefits | Total remuneration |
|---|---|---|---|
| **Non-executive Directors** | Directors' fees<br>$ | Superannuation<br>$ | Total<br>$ |
| **Frank Gooch** | 60,000 | 5,700 | **65,700** |
| **David Groves** | 40,000 | 3,800 | **43,800** |
| **Sandi Orleow** | 40,000 | 3,800 | **43,800** |
| | **140,000** | **13,300** | **153,300** |

# Directors Report (continued)

## Remuneration Report (Audited) (continued)

### d. Directors Remuneration (continued)

Russel Pillemer, who is also a Director and Chief Executive Officer of Pengana Capital Group Limited (ASX: PCG), the parent company of PIA's Investment Manager, is not remunerated by PIA.

In the year ending 30 June 2018, the Company decreased base fees payable to its Non-Executive Directors. There has been no subsequent changes to Directors Fees other than statutory Superannuation Guarantee increases.

### e. Service Agreements

Remuneration and other terms of employment for the Non-executive Directors are formalised in service agreements with the Company.

**Frank Gooch, Chairman, Independent Non-executive Director and member of the Audit, Risk and Compliance Committee and of the Independent Board Committee**

- Commenced on 5 June 2017 (Appointed Chairman 6 December 2017)
- No term of agreement has been set unless the Director is not re-elected by shareholders of the Company
- Annual fees, inclusive of superannuation, for the year ended 30 June 2022 of $66,000

**Russel Pillemer, Managing Director**

- Commenced on 5 June 2017 (Appointed Managing Director 21 February 2019)
- Mr Pillemer is not remunerated by the Company, and being the Managing Director is not required to stand for re-election.

**David Groves, Non-independent Non-executive Director and member of the Audit, Risk and Compliance Committee**

- Commenced on 13 January 2017
- No term of agreement has been set unless the Director is not re-elected by shareholders of the Company
- Annual fees, inclusive of superannuation, for the year ended 30 June 2022 of $44,000.

**Sandi Orleow, Independent Non-Executive Director**

- Commenced on 1 September 2019
- No term of agreement has been set unless the Director is not re-elected by shareholders of the Company
- Annual fees, inclusive of superannuation, for the year ended 30 June 2022 of $44,000.

**END OF AUDITED REMUNERATION REPORT**

# DIRECTORS REPORT (CONTINUED)

## Meeting of Directors

During the financial year, meetings of Directors (including committees) were held. Attendances were:

| | Full Board | | Audit, Risk and Compliance Committee | | Board-Sub Committee | |
|---|---|---|---|---|---|---|
| | Eligible | Attended | Eligible | Attended | Eligible | Attended |
| **Frank Gooch** | 13 | 13 | 4 | 4 | 1 | 1 |
| **Russel Pillemer** | 13 | 13 | - | - | 1 | 1 |
| **David Groves** | 13 | 12 | 4 | 4 | - | - |
| **Sandi Orleow** | 13 | 12 | 4 | 4 | - | - |

## Directors Share Holdings

Please see below details of Directors share holdings as at 30 June 2022.

| | Held at 1 July 2021 | Purchases | Sales | Other | Held at 30 June 2022 |
|---|---|---|---|---|---|
| **Frank Gooch** | **70,000** | - | - | - | **70,000** |
| **Russel Pillemer** | **23,809** | - | - | - | **23,809** |
| **David Groves** | **52,446** | - | - | - | **52,446** |
| **Sandi Orleow** | **10,000** | - | - | - | **10,000** |

### Environmental Issues

The Company's operations are not subject to any environmental regulation under the law of the Commonwealth and State or Territory.

### Proceedings on Behalf of the Company

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any such proceedings during the year.

### Rounding of amounts

The Company is of a kind referred to in the Australian Securities and Investments Commission (ASIC) Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, relating to the rounding off of amounts in the Directors' report. Amounts in the Directors' report have been rounded off in accordance with that instrument to the nearest thousand dollars, or in certain areas, to the nearest dollar (unless stated otherwise).

# Directors Report (continued)

## Indemnifying and Insurance of Directors and Officers

The Company insures each of the Directors and Officers in office against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of Directors and Officers of the Company, other than conduct involving a wilful breach of duty in relation to the Company. Details of the amount of premium paid in respect of insurance policies are not disclosed as such disclosure is prohibited under the terms of the contract..

## Indemnification of Auditors

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

## Auditor

Ernst & Young was appointed as the auditor on 16 November 2016 in accordance with section 327 of the *Corporations Act 2001*.

## Non-Audit Services

Ernst & Young received or are due to receive $7,000 for the provision of non-audit services.

The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

## Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required under s307C of the *Corporations Act 2001* is set out on the following page and forms part of this report.

Signed in accordance with a resolution of the Board of Directors.

F Gooch

Frank Gooch

**Chairman**
**Sydney**
**19 August 2022**

Ernst & Young
200 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
ey.com/au

# Auditor's Independence Declaration to the Directors of Pengana International Equities Limited

As lead auditor for the audit of Pengana International Equities Limited for the financial year ended 30 June 2022, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit;

b) no contraventions of any applicable code of professional conduct in relation to the audit; and

c) no non-audit services provided that contravene any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Pengana International Equities Limited during the financial year.

Ernst & Young

Ernst & Young

Jaddus M D Manga Neto

Jaddus Manga
Partner
19 August 2022

| | Note | Year ended 30 June 2022 $'000 | 30 June 2021 $'000 |
|---|---|---|---|
| **Investment Income** | | | |
| Interest received | | **2** | 17 |
| Dividend received | | **2,023** | 4,021 |
| Net gains/(losses) on financial instruments at fair value through profit or loss | 2 | **(81,377)** | 86,115 |
| Foreign exchange gains on foreign currency denominated cash | | **2** | 3 |
| Other operating income | | **-** | 364 |
| **Total investment income/ (loss)** | | **(79,350)** | 90,520 |
| Management fees | 3 | **(4,367)** | (4,297) |
| | | **(4,367)** | (4,297) |
| **Expenses** | | | |
| Directors' fees | | **(154)** | (153) |
| Audit and assurance fees | 3 | **(70)** | (70) |
| Brokerage expenses | | **(174)** | (713) |
| Share registry fees | | **(102)** | (109) |
| ASX listing fees | | **(91)** | (92) |
| Legal and professional expenses | | **(5)** | (7) |
| Custody and administration fees | | **(160)** | (156) |
| Other expenses | | **(405)** | (242) |
| | | **(1,161)** | (1,542) |
| **Total expenses** | | **(5,528)** | (5,839) |
| **Profit/(loss) before income tax** | | **(84,878)** | 84,681 |
| Income tax benefit/(expense) | 4 | **23,227** | (24,693) |
| **Net profit/(loss) after income tax** | | **(61,651)** | 59,988 |
| Other comprehensive income for the year, net of tax | | **-** | - |
| **Total comprehensive income/(loss) for the year** | | **(61,651)** | 59,988 |
| Basic and diluted earnings per share (cents per share) | 5 | **(24.14)** | 23.57 |

*The statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.*

| | Note | As at 30 June 2022 $'000 | 30 June 2021 $'000 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 6 | **10,834** | 6,518 |
| Trade and other receivables | 7 | **428** | 823 |
| Financial assets at fair value through profit or loss | 8 | **264,594** | 372,568 |
| Current tax asset | | **1,835** | - |
| Deferred tax assets | 4 | **10,756** | 63 |
| **Total assets** | | **288,447** | 379,972 |
| | | | |
| **Liabilities** | | | |
| Trade and other payables | 9 | **866** | 453 |
| Current tax liabilities | | **-** | 5,140 |
| Deferred tax liabilities | 4 | **50** | 12,581 |
| **Total liabilities** | | **916** | 18,174 |
| **Net assets** | | **287,531** | 361,798 |
| | | | |
| **Equity** | | | |
| Issued capital | 10 | **318,407** | 317,232 |
| Profit reserve | 12 | **163,823** | 158,479 |
| Retained losses | 11 | **(194,699)** | (113,913) |
| **Total equity attributable to shareholders of the company** | | **287,531** | 361,798 |

*The statement of financial position should be read in conjunction with the accompanying notes.*

| | Note | Issued Capital $'000 | Profit Reserve $'000 | Retained Earnings/ (losses) $'000 | Total $'000 |
|---|---|---|---|---|---|
| Balance at 1 July 2020 | | 316,026 | 114,394 | (113,913) | 316,507 |
| Profit for the year | | - | - | 59,988 | 59,988 |
| Transfer to profit reserve | | - | 59,988 | (59,988) | - |
| Transactions with shareholders in their capacity as owners: | | | | | |
| Dividend reinvestment plan issues | 10 | 1,206 | - | - | 1,206 |
| Dividends paid | 13 | - | (15,903) | - | (15,903) |
| Balance as at 30 June 2021 | | 317,232 | 158,479 | (113,913) | 361,798 |
| | | | | | |
| **Balance as at 1 July 2021** | | **317,232** | **158,479** | **(113,913)** | **361,798** |
| Loss for the year | | **-** | **-** | **(61,651)** | **(61,651)** |
| Transfer to profit reserve | | **-** | **19,135** | **(19,135)** | **-** |
| Transactions with shareholders in their capacity as owners: | | | | | |
| Dividend reinvestment plan issues | 10 | **1,175** | **-** | **-** | **1,175** |
| Dividends paid | 13 | **-** | **(13,791)** | **-** | **(13,791)** |
| **Balance at 30 June 2022** | | **318,407** | **163,823** | **(194,699)** | **287,531** |

*The above statement of changes in equity should be read in conjunction with the accompanying notes.*

| | Note | Year ended 30 June 2022 $'000 | 30 June 2021 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Proceeds from sale of investments | | **125,463** | 472,323 |
| Payments for purchase of investments | | **(98,011)** | (471,174) |
| Brokerage expenses | | **(174)** | (713) |
| Dividends received | | **2,028** | 3,905 |
| Interest received | | **-** | 17 |
| Other income received | | **33** | 282 |
| Management fees paid | | **(4,455)** | (4,280) |
| Performance fees paid | | **-** | (635) |
| Income tax paid | | **(6,972)** | (15,512) |
| Payment to suppliers | | **(982)** | (756) |
| **Net cash inflow/(outflow) from operating activities** | 14 | **16,930** | (16,543) |
| **Cash flows from financing activities** | | | |
| Dividends paid | 13 | **(12,616)** | (14,697) |
| **Net cash outflow from financing activities** | | **(12,616)** | (14,697) |
| Net increase/(decrease) in cash and cash equivalents | | **4,314** | (31,240) |
| Cash and cash equivalents at the beginning of the year | | **6,518** | 37,755 |
| Foreign exchange gains on foreign currency denominated cash | | **2** | 3 |
| **Cash and cash equivalents at the end of the year** | 6 | **10,834** | 6,518 |

*The above statement of cash flows should be read in conjunction with the accompanying notes.*

# CONTENTS OF THE NOTES TO THE FINANCIAL STATEMENTS

## 1 Corporate information and summary of significant accounting policies

The financial statements of Pengana International Equities Limited ("the Company"), for the year ended 30 June 2022 were authorised for issue in accordance with a resolution of the Directors on 19 August 2022. The Directors have the power to amend the financial statements after issue.

Pengana International Equities Limited is a for-profit company limited by shares incorporated and domiciled in Australia. The Company's principal place of business is Level 1, 2 and 3 60 Martin Place, Sydney, NSW 2000 Australia.

Further information on the nature of the operations and principal activities of the Company is provided in the Directors' report.

### Basis of preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards (AASB) and other authoritative pronouncements of the Australian Accounting Standards Board.

The financial report has been prepared on a historical cost basis unless stated otherwise and is presented in Australian dollars. Investments in financial assets and liabilities are recorded at fair value through profit and loss.

The statement of financial position is presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and are not distinguished between current and non-current.

### Compliance with International Financial Reporting Standards

The financial report also complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

### Summary of significant accounting policies

The following is a summary of the material accounting policies adopted by the Company in the preparation of the financial report. They have been consistently applied unless otherwise stated.

#### (a) Revenue and other income

Dividend income is recognised on the date shares are quoted ex-dividend. Interest income is recognised on an accruals basis.

All revenue is stated net of the amount of Goods and Services Tax (GST).

#### (b) Expenses

All expenses are recognised on an accrual basis. Management and performance fees are set out in Note 3.

#### (c) Cash and cash equivalents

Cash and cash equivalents include cash on hand and call deposits with banks or financial institutions that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, with original maturities of three months or less.

#### (d) Financial assets and liabilities

*Recognition and measurement*

Financial assets and liabilities are recognised when the Company becomes a party to the binding contractual provisions to the instrument. For financial assets this is equivalent to the date that the Company commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted).

## 1 Corporate information and summary of significant accounting policies (continued)

### (*d*). Financial assets and liabilities (continued)

Financial assets and liabilities are recognised on initial recognition at fair value. Financial instruments are classified into the following categories and fair values of financial instruments are determined on the following basis:

***(i)*** *Investments*

Financial assets and liabilities at fair value through profit and loss are measured initially at fair value excluding any transaction costs that are directly attributable to the acquisition of the financial asset or liability. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the Statement of Profit or Loss and Other Comprehensive Income. After initial recognition, investments are classified as "fair value through profit or loss". Gains and losses on investments are recognised in the Statement of Profit or Loss and Other Comprehensive Income. Gains and losses do not include interest or dividend income.

Last market close price is used for all investments quoted in an active market. Where this price falls outside the bid-ask spread, discretion is used as to whether the most appropriate price is the bid price or last market close price.

*De-recognition*

Investments are de-recognised when the right to receive cashflows from the investments has expired or the Company has transferred substantially all risks and rewards of ownership.

***(ii)*** *Trade and other receivables*

Trade and other receivables are initially recognised at fair value. They are subsequently stated at amortised cost. At each reporting date, the Company shall measure the loss allowance on trade receivables at an amount equal to the lifetime expected credit losses if the credit risk has increased significantly since initial recognition. If, at the reporting date, the credit risk has not increased significantly since initial recognition, the Company shall measure the loss allowance at an amount equal to 12-month expected credit losses. Significant financial difficulties of the broker, probability that the broker will enter bankruptcy or financial reorganisation, and default in payments are all considered indicators that a loss allowance may be required. If the credit risk increases to the point that it is considered to be credit impaired, interest income will be calculated based on the gross carrying amount adjusted for the loss allowance. Trade receivables include pending trades which are measured at fair value.

***(iii)*** *Trade and other payables*

Trade and other payables are initially recognised at fair value. They are subsequently stated at amortised cost. Trade payables include pending trades which are measured at fair value.

### (e) Foreign currency translation

Foreign currency transactions are translated into Australian Dollars (AUD) the reporting and functional currency of the Company, at the functional currency spot rates of exchange at the date of the transaction.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of foreign assets and liabilities at year end exchange rates are recognised in the Statement of Profit or Loss and Other Comprehensive Income.

Translation differences on monetary assets and liabilities, forward foreign exchange hedging contracts, exchange traded options and investments are reported as part of the change in fair value of investments on the Statement of Profit or Loss and Other Comprehensive Income. All other foreign exchange gains and losses are presented in the Statement of Profit or Loss and Other Comprehensive Income within investment income.

Assets and liabilities denominated in a foreign currency are translated at the functional currency spot rates of exchange at reporting date.

## 1 Corporate information and summary of significant accounting policies (continued)

### (f) Income Tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax adjusted for changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period.

Deferred tax is provided for using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re- assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Upon adoption of AASB interpretation 23 *Uncertainity over Income Tax Treatments*, the Company considered whether it has any uncertain tax positions. The Company determined, based on its tax compliance, that it is probable that its tax treatments will be accepted by the taxation authorities. The interpretation did not have an impact on the financial statements of the Company as there is no uncertainty relating to any tax treatments.

### (g) Goods and Services Tax

The GST incurred on the costs of various services provided to the Company by third parties such as custodial services and investment management fees has been passed onto the Company.

The Company qualifies for Reduced Input Tax Credits (RITC) at a rate of at least 55%, hence investment management fees, custodial fees and other expenses have been recognised in the statement of comprehensive income net of the amount of GST recoverable from the Australian Taxation Office (ATO). Accounts payable are inclusive of GST. The net amount of GST recoverable from the ATO is included in receivables in the statement of financial position.

Cash flows relating to GST are included in the statement of cash flows on a gross basis.

### (h) Profit Reserve

The profit reserve consists of amounts transferred from current and prior period profits and are preserved for future dividend payments.

### (i) Critical accounting estimates and judgements

The Directors evaluate estimates and judgements incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Company. For the majority of the financial instruments held by the Company, quoted market prices are readily available.

### (j) Rounding of amounts

Unless otherwise shown in the financial statements, amounts have been rounded to the nearest thousand dollars and are shown in A$'000. Pengana International Equities Limited is a company of the kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191.

### (k) New and amended standards and interpretations

There are no standards that are not yet effective and that are expected to have a material impact on the Company in the current or future reporting periods and on foreseeable future transactions.

### (l) Comparative figures

Comparative information has been reclassified where required for consistency with current year's presentation.

## 2 Net gains/(losses) on financial instruments at fair value through profit or loss

| | 30 June 2022 | 30 June 2021 |
|---|---|---|
| | $'000 | $'000 |
| Net gains/(losses) on realised fair value of listed equities | **2,869** | 49,980 |
| Net gains/(losses) on unrealised fair value of listed equities | **(84,246)** | 29,416 |
| Net gains/(losses) on realised fair value of derivative financial instruments | - | 9,638 |
| Net gains/(losses) on unrealised fair value of derivative financial instruments | - | (2,919) |
| **Total net gains/(losses) on financial instruments at fair value through profit or loss** | **(81,377)** | 86,115 |

## 3 Expenses

### a. Management fees

In accordance with the Investment Management Agreement between the Company and Pengana Investment Management Limited (the Investment Manager), the Investment Manager is entitled to a management fee of 1.2% (excluding GST and RITC) pa based on the gross value of the investment portfolio, payable on a monthly basis.

The amounts paid and payable to the Investment Manager in accordance with the Investment Management Agreement were:

| | 30 June 2022 | 30 June 2021 |
|---|---|---|
| | $'000 | $'000 |
| Management fees | **4,367** | 4,297 |

### b. Performance fees

In accordance with the Investment Management Agreement between the Company and Pengana Investment Management Limited (the Investment Manager), the Investment Manager is entitled to a performance fee of 15% (excluding GST and RITC) of any outperformance when the investment return of the portfolio outperforms the MSCI World Total Return Index, Net Dividends Reinvested in A$, subject to achievement of a crystallisation hurdle. The method of calculating the fee is detailed in the Investment Management Agreement.

As at 30 June 2022, performance fees payable was nil (30 June 2021: nil).

| | 30 June 2022 | 30 June 2021 |
|---|---|---|
| | $'000 | $'000 |
| Performance fees | - | - |

### c. Auditor's remuneration

During the year the following fees were paid or payable by the Company for services provided by the auditor of the Company, Ernst & Young.

| | 30 June 2022 | 30 June 2021 |
|---|---|---|
| | $'000 | $'000 |
| **Ernst & Young** | | |
| **Audit and assurance services** | | |
| Audit and review of financial statements | **70** | 70 |
| **Total remuneration for audit and other assurance services** | **70** | 70 |
| **Non-assurance services** | | |
| Tax compliance services | **7** | 7 |
| **Total remuneration for taxation services** | **7** | 7 |
| **Total remuneration of Ernst & Young** | **77** | 77 |

## 4 Income tax expense

| | Year ended | |
|---|---|---|
| | **30 June 2022** | 30 June 2021 |
| | **$'000** | $'000 |
| **a. Income tax expense attributable for the year differs from the prima facie amount payable on the operating profit. The difference is reconciled as follows:** | | |
| **(Loss)/profit before income tax expense** | **(84,878)** | 84,681 |
| Prima facie income tax benefit/(expense) on net profit at 25.0% (2021: 30.0%) | **21,220** | (25,404) |
| Effect on deferred tax rate change from 30.0% to 25.0% | **2,089** | - |
| Foreign withholding tax | **-** | 749 |
| Adjustments to prior period | **(82)** | (38) |
| | **23,227** | (24,693) |
| **b. The major components of income tax benefit/(expense) are:** | | |
| Current income tax benefit/(expense) | **-** | (16,553) |
| Adjustment for deferred tax of prior period due to change in tax rate | **2,089** | - |
| Deferred income tax benefit/(expense) | **21,138** | (8,140) |
| | **23,227** | (24,693) |
| **c. Deferred tax liabilities relate to the following:** | | |
| Unrealised gain on investments | **-** | (12,519) |
| Other temporary differences | **(50)** | (62) |
| | **(50)** | (12,581) |
| **d. Deferred tax assets relate to the following:** | | |
| Unrealised losses on investments | **10,641** | - |
| Costs associated with the issue of shares | **2** | 22 |
| Other temporary differences | **39** | 41 |
| Unused income tax losses for which deferred tax asset has been recognised | **74** | - |
| | **10,756** | 63 |

Under the provisions of the tax legislation, a company will qualify for the lower company tax rate of 25% for the financial year 2021/22 if it is a “base rate entity” for the income year. A company is a “base rate entity” for an income year only if:

- No more than 80% of the company’s assessable income for the year is passive income; and
- The aggregated turnover of the company is less than the relevant threshold ($50m for the financial year 2021/22).

The Company's “aggregated turnover” for the financial year 2021/22 amounted to approximately $17.3m.

As the Company’s “aggregated turnover” for the financial year 2021/22 was below $50 million, the Company is eligible to qualify for the lower company tax rate of 25% for 2021/22. Therefore the Company tax rate for the financial year 2021/22 is 25%, and the Company will be able to frank dividends paid during the 2022/23 financial year at 25%.

The maximum rate at which the Company could frank dividends paid during the financial year 2021/22 was 30%.

Whilst the forecast tax rate and franking rate is 25% for financial year 2022/23 (2021/22:30%), the actual tax rate for financial year 2022/2023 will be determined by the Aggregated Turnover for financial year 2022/23. In the event that this is more than $50m, the tax rate for financial year 2022/23 will be 30%.

## 5 Earnings per share (EPS)

| | 30 June 2022 | 30 June 2021 |
|---|---|---|
| | $'000 | $'000 |
| Net profit/(loss) after income tax used in the calculation of basic and diluted EPS | (61,651) | 59,988 |
| | No. of Shares | No. of Shares |
| Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS | 255,430,976 | 254,490,600 |
| Weighted average number of ordinary shares outstanding during the year used in calculation of diluted EPS | 255,430,976 | 254,490,600 |

The basic and diluted earnings per share have been calculated using the net profit after income tax attributable to the shareholders of the Company as the numerator.

## 6 Cash and cash equivalents

| | As at | |
|---|---|---|
| | 30 June 2022 | 30 June 2021 |
| | $'000 | $'000 |
| Cash at custodian | 10,834 | 6,518 |
| | 10,834 | 6,518 |

## 7 Trade and other receivables

| | As at | |
|---|---|---|
| | 30 June 2022 | 30 June 2021 |
| | $'000 | $'000 |
| Dividends receivable | 185 | 190 |
| Interest receivable | 2 | - |
| Outstanding investment settlements receivable | 111 | 470 |
| GST receivable | 79 | 90 |
| Other receivables | 51 | 73 |
| | 428 | 823 |

There are no past due or impaired receivables at reporting date. All trade receivables are expected to be received within 12 months of the reporting date.

## 8 Financial assets at fair value through profit or loss

| | As at | |
|---|---|---|
| | 30 June 2022 | 30 June 2021 |
| | $'000 | $'000 |
| Listed shares | 264,594 | 372,568 |
| | 264,594 | 372,568 |

## 9 Trade and other payables

| | As at | |
|---|---|---|
| | **30 June 2022** | 30 June 2021 |
| | **$'000** | $'000 |
| Management fees payable | **280** | 368 |
| Unsettled trades | **496** | - |
| Other expenses payable | **90** | 85 |
| | **866** | 453 |

All trade payables are expected to be settled within 12 months of the reporting date.

## 10 Issued capital

| | **30 June 2022 No. of shares** | 30 June 2021 No. of shares |
|---|---|---|
| **Issued ordinary shares at the beginning of the reporting period** | **255,077,850** | 254,086,037 |
| Dividends reinvested (DRP) | **953,821** | 991,813 |
| **Issued ordinary shares at reporting date** | **256,031,671** | 255,077,850 |

| | **30 June 2022** | 30 June 2021 |
|---|---|---|
| | **$'000** | $'000 |
| **Issued ordinary shares at the beginning of the reporting period** | **317,232** | 316,026 |
| Dividends reinvested (DRP) | **1,175** | 1,206 |
| **Issued ordinary shares at reporting date** | **318,407** | 317,232 |

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote. A reconciliation of the number of ordinary shares outstanding is shown in the table above.

**Capital risk management**

The Directors manage the Company's capital by regularly ensuring that the Company employs its capital in the most efficient manner. The Directors believe that shareholder value is maximised through effective management of dividends distributed to shareholders, share buy-backs and issue of capital. These capital management initiatives will be used when deemed appropriate by the Directors. To achieve this, the Directors monitor the weekly and month end net tangible asset results, investment performance, the Company's expenses and share price movements.

During the year ended 30 June 2022, the Company paid dividends of $13,791,231 (30 June 2021: $15,902,757).

The capital structure of the Company consists of equity attributable to equity holders, comprising issued capital, reserves and retained earnings as disclosed in the Statement of Changes of Equity.

The Company is not subject to externally imposed capital requirements.

## 11 Retained losses

| | As at | |
|---|---|---|
| | **30 June 2022** | 30 June 2021 |
| | **$'000** | $'000 |
| Balance at the beginning of the year | **(113,913)** | (113,913) |
| Current year profit/(loss) | **(61,651)** | 59,988 |
| Transfer to profit reserve | **(19,135)** | (59,988) |
| **Balance at the end of the year** | **(194,699)** | (113,913) |

## 12 Profit reserve

| | As at | |
|---|---|---|
| | **30 June 2022** | 30 June 2021 |
| | **$'000** | $'000 |
| Balance at the beginning of the year | **158,479** | 114,394 |
| Transfer from retained earnings | **19,135** | 59,988 |
| Final fully franked dividend, franked at 30%, of 1.35 cents paid 22 September 2021 (2021: 2.50 cents fully franked at 30%). | **(3,444)** | (6,352) |
| Interim fully franked dividends, franked at 30%, of 1.35 cents paid on 15 December, 15 March and 15 June 2022 (2021: 1.25 cents fully franked at 30%) | **(10,347)** | (9,551) |
| **Balance at the end of the year** | **163,823** | 158,479 |

The profit reserve consists of declared profits, available for the payment of future dividends.

## 13 Dividends

| | Year ended | |
|---|---|---|
| | **30 June 2022** | 30 June 2021 |
| | **$'000** | $'000 |
| **a. Dividends paid** | | |
| Final fully franked dividend, franked at 30%, of 1.35 cents paid 22 September 2021 (2021: 2.50 cents fully franked at 30%). | **3,444** | 6,352 |
| Interim fully franked dividends, franked at 30%, of 1.35 cents paid on 15 December, 15 March and 15 June 2022 (2021: 1.25 cents fully franked at 30%) | **10,347** | 9,551 |
| | **13,791** | 15,903 |
| **b. Dividend reinvestment plan** | | |
| Final fully franked dividend, franked at 30%, of 1.35 cents paid 22 September 2021 (2021: 2.50 cents fully franked at 30%). | **(284)** | (482) |
| Interim fully franked dividends, franked at 30%, of 1.35 cents paid on 22 January, 29 April and 15 June 2022 (2021: 1.25 cents fully franked at 30%) | **(891)** | (724) |
| | **(1,175)** | (1,206) |
| **Net dividends paid in cash** | **12,616** | 14,697 |
| **c. Franking account** | | |
| Balance at the beginning of the year | **13,486** | 4,789 |
| Franking credits from tax paid | **6,972** | 15,512 |
| Payment of interim fully franked dividends | **(4,435)** | (4,093) |
| Prior year final fully franked dividend | **(1,476)** | (2,722) |
| **Franking account balance at year end** | **14,547** | 13,486 |
| Declared but not paid final fully franked dividend | **(1,151)** | (1,476) |
| **Franking account balance post payment of final dividend** | **13,396** | 12,010 |

On 2 August 2022 the Board declared a final fully franked dividend of 1.35 cents per share franked at 25%, in line with the Company's stated dividend policy. This brings the total fully franked dividend for the year ended 30 June 2022 to 5.4 cents per share.

As at 30 June 2022, the $13.40m franking account balance post payment of final dividend is equivalent to 5.23 cents (2021: 6.76 cents) per share fully franked dividend franked at 25%.

The Company's ability to continue to pay franked dividends is dependent upon the receipt of franked dividends from investments and the payment of tax.

Under the provisions of the tax legislation, a company will qualify for the lower company tax rate of 25% for the financial year 2021/22 if it is a "base rate entity" for the income year. A company is a "base rate entity" for an income year only if:

## 13 Dividends (continued)

- No more than 80% of the company's assessable income for the year is passive income; and
- The aggregated turnover of the company is less than the relevant threshold ($50m for the financial year 2021/22).

The Company's "aggregated turnover" for the financial year 2021/22 amounted to approximately $17.3m.

As the Company's "aggregated turnover" for the financial year 2021/22 was below $50 million, the Company is eligible to qualify for the lower company tax rate of 25% for 2021/22. Therefore the Company tax rate for the financial year 2021/22 is 25%, and the Company will be able to frank dividends paid during the 2022/23 financial year at 25%.

The maximum rate at which the Company could frank dividends paid during the financial year 2021/2022 was 30%.

Whilst the forecast tax rate and franking rate is 25% for financial year 2022/23 (2021/22:30%), the actual tax rate for financial year 2022/2023 will be determined by the Aggregated Turnover for financial year 2022/23. In the event that this is more than $50m, the tax rate for financial year 2022/23 will be 30%.

## 14 Cash flow information

| | Year ended | |
|---|---|---|
| | **30 June 2022** | 30 June 2021 |
| | **$'000** | $'000 |
| **(a) Reconciliation of net cash flow from operating activities to net (loss)/profit after income tax:** | | |
| Net profit/(loss) after income tax | **(61,651)** | 59,988 |
| Change in fair value of investments and foreign cash held | **81,375** | (86,118) |
| Proceeds from sale of investments | **125,463** | 472,323 |
| Payments for purchase of investments | **(98,011)** | (471,174) |
| Change in other receivables | **36** | (197) |
| Change in other payables | **(83)** | (544) |
| Net change in deferred tax asset and liability | **(23,224)** | 8,139 |
| Change in income tax receivables/payables | **(6,975)** | 1,040 |
| **Net cash inflow/(outflow) from operating activities** | **16,930** | (16,543) |
| **(b) Non-cash financing activities** | | |
| Issue of shares under the dividend reinvestment plan (DRP) | **1,175** | 1,206 |
| | **1,175** | 1,206 |

## 15 Financial risk management

The Company holds the following financial instruments:

| | **30 June 2022** | 30 June 2021 |
|---|---|---|
| | **$'000** | $'000 |
| **Financial assets** | | |
| Cash and cash equivalents | **10,834** | 6,518 |
| Trade and other receivables | **428** | 823 |
| Investments at fair value | **264,594** | 372,568 |
| | **275,856** | 379,909 |
| **Financial liabilities** | | |
| Trade and other payables | **866** | 453 |
| | **866** | 453 |

From time to time, forward foreign exchange hedging contracts are used by the Company for risk management purposes. There is no gearing through the use of derivatives.

## 15 Financial risk management (continued)

**Financial risk exposures and management**

The main risks the Company is exposed to through its financial instruments are market risk and credit risk.

**a. Market risk**

*(i) Price risk*

The Company is exposed to equity securities price risk arising from investments held by the Company and classified on the Statement of Financial Position as fair value through profit or loss of $264.6m (2021: $372.6m).

***Sensitivity analysis***

At reporting date, if the equity prices had been 10% higher or 15% lower, loss before income tax of the Company would have decreased by $26.5m or increased by $39.7m (2021: profit increased by $37.3m or decreased by $55.9m).

The analysis assumes that all other variables, in particular interest rates, remain constants. The analysis is performed on the same basis as for 2021.

The Company has no concentrations in individual equity positions exceeding 3.9% (2021: 3.6%) or more of the Company's equity portfolio other than below:

| Company | Fair value $'000 | % | Business description |
|---|---|---|---|
| **30 June 2022** | | | |
| Alphabet Inc | **10,420** | **3.9%** | Information technology |
| 30 June 2021 | | | |
| Alphabet Inc | 13,267 | 3.6% | Information technology |

*(ii) Foreign exchange risk*

As at 30 June 2022 the portfolio (net assets excluding net tax liabilities) was invested 95.6% in international equities (2021: 99.5%). The portfolio had an exposure to foreign cash and investments of $265m (2021: $373m).

The Company did not use forward foreign exchange contracts during the year to 30 June 2022. There were no forward exchange hedging contracts held as at 30 June 2022 and 30 June 2021.

***Sensitivity analysis***

At reporting date a 15% strengthening/weakening of the Australian Dollar at 30 June 2022 would have decreased/increased profit or loss before income tax by $39.5m (2021: $55.6m). The analysis assumes that all other variables, in particular interest rates, remain constant. The sensitivity analysis has been performed under the assumption that Australian Dollar strengthened or weakened +/-15% (2021:+/-15%) against the major currencies to which the Company is exposed.

## 15 Financial risk management (continued)

**a. Market risk (continued)**

*(ii) Foreign exchange risk (continued)*

The Company's total net exposure to fluctuations in foreign currency exchange rates at the reporting date was as follows:

| **30 June 2022** | **Cash** | **Investments** | **Trade and other receivables/ payables & Dividend payable** | **Tax asset/ liability** | **Total** |
|---|---|---|---|---|---|
| **Assets (AUD)** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** |
| Australian Dollar | **10,804** | **971** | **237** | **12,591** | **24,603** |
| Euro | **-** | **21,694** | **2** | **-** | **21,696** |
| United States Dollar | **30** | **184,006** | **102** | **-** | **184,138** |
| Danish Krone | **-** | **2,587** | **-** | **-** | **2,587** |
| Hong Kong Dollar | **-** | **19,560** | **42** | **-** | **19,602** |
| British Pound | **-** | **6,047** | **-** | **-** | **6,047** |
| Indonesian Rupiah | **-** | **4,257** | **-** | **-** | **4,257** |
| Polish Zloty | **-** | **1,691** | **-** | **-** | **1,691** |
| Swedish Krona | **-** | **10,218** | **-** | **-** | **10,218** |
| Swiss Franc | **-** | **4,667** | **-** | **-** | **4,667** |
| Brazilian Real | **-** | **2,365** | **26** | **-** | **2,391** |
| Chinese Yuan | **-** | **498** | **-** | **-** | **498** |
| Japanese Yen | **-** | **6,033** | **19** | **-** | **6,052** |
| | **10,834** | **264,594** | **428** | **12,591** | **288,447** |
| **Liabilities (AUD)** | | | | | |
| Australian Dollar | **-** | **-** | **370** | **50** | **420** |
| Euro | **-** | **-** | **496** | **-** | **496** |
| | **-** | **-** | **866** | **50** | **916** |

| 30 June 2021 | Cash | Investments | Trade and other receivables/ payables | Tax asset/ liability | Total |
|---|---|---|---|---|---|
| Assets (AUD) | $'000 | $'000 | $'000 | $'000 | $'000 |
| Australian Dollar | 6,488 | 1,870 | 161 | 63 | 8,582 |
| Euro | - | 15,503 | - | - | 15,503 |
| United States Dollar | 29 | 264,453 | 544 | - | 265,026 |
| Danish Krone | - | 3,165 | - | - | 3,165 |
| Hong Kong Dollar | 2 | 37,150 | 54 | - | 37,206 |
| British Pound | - | 5,774 | - | - | 5,774 |
| Indonesian Rupiah | - | 3,582 | - | - | 3,582 |
| Polish Zloty | - | 3,304 | - | - | 3,304 |
| Swedish Krona | - | 10,143 | - | - | 10,143 |
| Swiss Franc | - | 7,379 | - | - | 7,379 |
| Brazilian Real | (1) | 3,727 | 47 | - | 3,773 |
| Singapore Dollar | - | 3,607 | - | - | 3,607 |
| Japanese Yen | - | 12,911 | 17 | - | 12,928 |
| | 6,518 | 372,568 | 823 | 63 | 379,972 |
| Liabilities (AUD) | | | | | |
| Australian Dollar | - | - | 453 | 17,720 | 18,173 |
| | - | - | 453 | 17,720 | 18,173 |

*(iii) Interest rate risk*

The main interest rate risk for the Company arises from its cash holdings. The Company's exposure to interest rate risk is immaterial.

| | **30 June 2022** | 30 June 2021 |
|---|---|---|
| | **$'000** | **$'000** |
| **Cash and cash equivalents** | | |
| Cash balance subject to floating interest rate | 10,834 | 6,518 |

## 15 Financial risk management (continued)

### b. Credit risk

The Company measures credit risk and expected credit losses using probability of default, exposure at default and loss given default. Management consider both historical analysis and forward looking information in determining any expected credit loss. At 30 June 2022, trade and other receivables, and cash are held with counterparties with a credit rating of A-1 or higher (2021: A-1). Management consider the probability of default to be close to zero as these instruments have a low risk of default and the counterparties have a strong capacity to meet their contractual obligations in the near term. As such, no loss allowance is deemed to be necessary based on 12-month expected credit losses.

The Company's major credit risk arises from assets and cash and cash equivalents held with the custodian, BNP Paribas (credit rating: A-1).

The Company manages credit risk associated with financial assets by only trading with reputable brokers and via established securities exchanges.

### c. Liquidity risk

Based on an assumption of trading 10% of the trailing three month daily average volume 100% of the portfolio could be realised in one month (2021: 100%).

***Maturities of financial liabilities***

Financial liabilities held by the Company include management fees payable to the Investment Manager, unsettled trades and other payables. The below table shows the maturities of financial liabilities held by the Company.

| **30 June 2022** | **Less than 1 month** | **1 to 3 months** | **3 to 6 months** | **6 to 12 months** | **Total** |
|---|---|---|---|---|---|
| **Financial liabilities** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** |
| Due to brokers | **496** | **-** | **-** | **-** | **496** |
| Other payables | **370** | **-** | **-** | **-** | **370** |
| **Total** | **866** | **-** | **-** | **-** | **866** |

| 30 June 2021 | Less than 1 month | 1 to 3 months | 3 to 6 months | 6 to 12 months | Total |
|---|---|---|---|---|---|
| Financial liabilities | $'000 | $'000 | $'000 | $'000 | $'000 |
| Other payables | 453 | - | - | - | 453 |
| Total | 453 | - | - | - | 453 |

### d. Net fair values

The following table provides an analysis of financial instruments as at reporting date that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which fair value is observable.

• Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets and liabilities.

• Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

• Level 3 fair value measurement are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The transfers between levels only happen at the end of the reporting period.

There has been no transfer between levels from the previous reporting period.

| **30 June 2022** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| **Financial assets** | **$'000** | **$'000** | **$'000** | **$'000** |
| Listed investments at fair value | **264,594** | **-** | **-** | **264,594** |
| **Total** | **264,594** | **-** | **-** | **264,594** |

## 15 Financial risk management (continued)

### d. Net fair values (continued)

| 30 June 2021 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Financial assets | $'000 | $'000 | $'000 | $'000 |
| Listed investments at fair value | 372,568 | - | - | 372,568 |
| Total | 372,568 | - | - | 372,568 |

The carrying amount of cash, trade and other receivables and trade and other payables approximate their fair values.

## 16 Related party transactions

### Details of key management personnel

Key Management Personnel (KMP) for the year ended 30 June 2022 are those persons who are identified as having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any Non-executive Director (NED) of the Company.

Names and positions held by Directors and Officers of the Company in office at any time during the financial year are:

| Name | Title | Appointment and resignation date |
|---|---|---|
| Frank Gooch | Independent Non-Executive Director and Chairman | Appointed Independent Non-Executive Director 5 June 2017 and Chairman 6 December 2017 |
| Russel Pillemer | Managing Director | Appointed Non-Executive Director 5 June 2017 and Managing Director 21 February 2019 |
| David Groves | Non-Executive Director | Appointed 13 January 2017 |
| Sandi Orleow | Independent Non-Executive Director | Appointed 1 September 2019 |

The Company has no employees. All operational and administrative duties are performed by Pengana Capital Group Limited (PCG), the parent company of the Investment Manager. No employees of PCG are remunerated by the Company. All KMP held their positions for the whole of the year ended 30 June 2022.

### Related party transactions

Transactions between related parties are on arm's length commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

| | 30 June 2022 | 30 June 2021 |
|---|---|---|
| | **$** | $ |
| **a. Pengana Capital Group Limited**<br>The Company reimburses Pengana Capital Group Limited for any expenses that are paid on behalf of the Company as appropriate under the Company's constitution. | **(92,993)** | (56,533) |
| **b. Pengana Investment Management Limited (Investment Manager)**<br>Management fees paid and payable as governed by the Investment Management Agreement | **(4,367,173)** | (4,297,364) |

## 17 Statement of operations by segment

The Company has identified its operating segments based on the internal reports that are reviewed and used by the Chief Investment Officer of the Investment Manager in assessing and determining the allocation of resources.

The Company operates in one business segment, being investment in securities.

## 18 Subsequent events

On 2 August 2022 the Board declared a final fully franked dividend of 1.35 cents per share franked at 25%, in line with the Company's stated dividend policy. This brings the total fully franked dividend for the year ended 30 June 2022 to 5.4 cents per share.

The Board has resolved to put in place the mechanism to allow for an on-market buyback of up to 10% of the Company's shares over the following twelve months commencing 2 August 2022. The buyback may be actioned when the Board considers that it provides a better long term benefit to continuing shareholders than an alternative investment of funds.

Based on the closing share price at 18 August 2022 of $1.10, the 5.4 cps fully franked dividends declared for the financial year to 30 June 2022 represent a yield of 4.9%, or 6.9% when grossed up for the franking credits attached to the dividends declared. The Board expects that dividends declared for the 2023 financial year will be franked at a 25% tax rate, and on this basis the grossed up yield would be 6.5%.

The NTA after provision for tax on unrealised gains of the Company at 12 August 2022 was $1.21, an increase of $0.09 or 7.4% from the NTA of $1.12 recorded at 30 June 2022.

Other than the above, the Directors are not aware of any other matter or circumstance not otherwise dealt with in this financial report that has significantly or may significantly affect the Company's operations, the results of those operations or the Company's state of affairs in future years.

## 19 Contingent liabilities

There were no contingent liabilities at 30 June 2022 and 30 June 2021 that required disclosure.

# DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of Pengana International Equities Limited, I state that:

In the opinion of the directors of the Company:

a the financial statements and notes of Pengana International Equities Limited for the financial year ended 30 June 2022 are in accordance with the *Corporations Act 2001*, including:
  - giving a true and fair view of the Company's financial position as at 30 June 2022 and of its performance for the year ended on that date; and
  - complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

b the financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 1; and

c there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration has been made after receiving the declarations required to be made to the directors by the Chief Executive Officer and Chief Financial Officer of the Investment Manager in accordance with section 295A of the *Corporations Act 2001* for the financial year ended 30 June 2022.

On behalf of the Board,

F Gooch

Frank Gooch
**Chairman**
**Sydney**
**19 August 2022**

Ernst & Young
200 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

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# Independent auditor's report to the unitholders of Pengana International Equities Limited

## Report on the audit of the financial report

### Opinion

We have audited the financial report of Pengana International Equities Limited (the Company), which comprises the statement of financial position as at 30 June 2022, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Company is in accordance with the *Corporations Act 2001*, including:

a. Giving a true and fair view of the Company's financial position as at 30 June 2022 and of its financial performance for the year ended on that date; and

b. Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

### Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

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## Investment existence and valuation

| Why significant | How our audit addressed the key audit matter |
|---|---|
| The Company has a significant investment portfolio consisting primarily of listed equities. As at 30 June 2022, the value of these listed equities, was A$264,594,024 which equates to 92% of the total assets of the Company.<br><br>As detailed in the Company's accounting policy described in Note 1d of the financial report, these financial assets are recognised at fair value through profit or loss in accordance with Australian Accounting Standards.<br><br>Pricing, exchange rates and other market drivers can have a significant impact on the value of these financial assets and the financial report.<br><br>Accordingly, valuation of the investment portfolio was considered a key audit matter. | We assessed the effectiveness of the controls relating to the recognition and valuation of investments.<br><br>We obtained and considered the assurance report on the controls of the Company's administrator in relation to Fund Administration Services for the year ended 30 June 2022 and considered the auditor's qualifications and objectivity and results of their procedures.<br><br>We agreed all investment holdings, including cash accounts, to third party confirmations at 30 June 2022.<br><br>We assessed the fair value of all investments in the portfolio held at 30 June 2022 to independently sourced market prices.<br><br>We assessed the adequacy of the disclosures in Note 15 of the financial report in accordance with the requirements of Australian Accounting Standards. |

## Management and Performance Fees

| Why significant | How our audit addressed the key audit matter |
|---|---|
| Management and performance fees paid to the service provider, Pengana Investment Management Limited, are the most significant operating expense for the Company.<br><br>The Company's accounting policy for management and performance fees is described in Note 3 to the financial report. Performance fees are recognised in the financial report if the performance hurdles for the Company have been met at the end of the relevant measurement period, which is the date that the performance criteria is met and the liability has been crystallised.<br><br>As at 30 June 2022, management and performance fees totalled A$4,367,173 which equates to 79% of total expenses. Of this amount, management fees totalled A$4,367,173 and performance fees totalled nil. | We assessed the effectiveness of the controls in relation to the calculation of management and performance fees at the service provider responsible for the calculation.<br><br>We obtained and considered the assurance report on the controls of the Company's administrator in relation to Fund Administration Services for the year ended 30 June 2022 and considered the auditor's qualifications and objectivity and results of their procedures<br><br>We recalculated management fees, in accordance with the relevant Services agreement, including agreeing the fee rate to the calculation.<br><br>We recalculated the performance fee, including testing the inputs into the calculation model and whether the calculation was in line with the relevant Services agreement. |

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| Why significant | How our audit addressed the key audit matter |
|---|---|
| The quantum of these expenses and the impact that market volatility can have on the quantum of performance fees resulted in this being a key audit matter. The disclosure of these amounts is included in Note 3 to the financial report. | We also assessed that the criteria for accrual of a performance fee were not met and no fee liability was accrued at 30 June 2022.<br><br>We assessed the adequacy of the disclosures in Note 3 of the financial report in accordance with the requirements of Australian Accounting Standards. |

## Information other than the financial report and auditor's report thereon

The directors are responsible for the other information. The other information is the directors' report accompanying the financial report.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- ► Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ► Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- ► Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors of the Company.
- ► Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- ► Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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# Report on the audit of the Remuneration Report

## Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 17 to 19 of the directors' report for the year ended 30 June 2022.

In our opinion, the Remuneration Report of Pengana International Equities Limited for the year ended 30 June 2022, complies with section 300A of the *Corporations Act 2001*.

## Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Ernst & Young

Ernst & Young

Jaddus M D Manga Neto

Jaddus Manga
Partner
Sydney
19 August 2022

ASX INFORMATION

The shareholder information set out below was applicable as at 11 August 2022.

## Distribution of shareholders

Analysis of number of equitable security holders by size of holding:

| Range | Number of shareholders | Number of ordinary shares | % Ordinary shares |
|---|---|---|---|
| 1 - 1,000 | 476 | 192,410 | 0.08 |
| 1,001 - 5,000 | 1,010 | 3,316,620 | 1.30 |
| 5,001 - 10,000 | 1,159 | 9,424,726 | 3.68 |
| 10,001 - 100,000 | 3,505 | 111,657,263 | 43.61 |
| 100,001 Over | 386 | 131,440,652 | 51.34 |
| **Total** | **6,536** | **256,031,671** | **100.0%** |

## Holders holding less than a marketable parcel

| | Minimum parcel size | Shareholders | Ordinary shares |
|---|---|---|---|
| Minimum $ 500.00 parcel at $ 1.1150 per unit | 449 | 259 | 26,425 |

## Substantial shareholders

The following shareholders have notified the Company that they are the substantial shareholders:

| | Number of ordinary shares | % of total issued ordinary shares |
|---|---|---|
| Washington H. Soul Pattinson and Company Limited | 30,734,274 | 12.00 |
| Wilson Asset Management Group | 19,148,075 | 7.48 |

## 20 Largest shareholders

| | Number of ordinary shares | % of total issued ordinary shares |
|---|---|---|
| Citicorp Nominees Pty Limited | 17,270,830 | 6.75 |
| Washington H Soul Pattinson And Company Limited | 16,932,474 | 6.61 |
| Washington H Soul Pattinson And Company Limited | 7,438,106 | 2.91 |
| Pengana Capital Ltd | 3,454,815 | 1.35 |
| HSBC Custody Nominees (Australia) Limited | 2,485,101 | 0.97 |
| Pengana Investment Management Limited | 2,042,720 | 0.80 |
| Netwealth Investments Limited | 1,482,030 | 0.58 |
| J P Morgan Nominees Australia Pty Limited | 1,457,439 | 0.57 |
| Pengana Investment Management Ltd | 1,412,095 | 0.55 |
| Bnp Paribas Nominees Pty Ltd Hub24 Custodial Serv Ltd | 1,280,772 | 0.50 |
| Mr Anthony John Simmonds & Mrs Maureen Simmonds | 1,130,842 | 0.44 |
| Netwealth Investments Limited | 1,082,529 | 0.42 |
| Halcycon Pty Ltd | 694,557 | 0.27 |
| Mr Orlando Berardino Di Iulio & Ms Catharina Maria Koopman | 650,000 | 0.25 |
| Mrs Jean Thyne Hadges | 643,095 | 0.25 |
| Dove House Super Pty Limited | 606,551 | 0.24 |
| Est Mr Francis Maxwell Hooper | 579,000 | 0.23 |
| Abyaneh Pty Ltd | 550,565 | 0.22 |
| Mr Matthew Curzon Allen & Mrs Elizabeth Jane Allen | 549,479 | 0.21 |
| Sanctuary Gate Pty Ltd | 525,000 | 0.21 |
| **Totals: Top 20 holders of Ordinary Fully Paid Shares** | **62,268,000** | **24.32** |
| **Total Remaining Holders Balance** | **193,763,671** | **75.68** |

As at 11 August 2022 there were 6,536 shareholders.

## Voting rights

Subject to the Company's constitution:

- At meetings of shareholders, each shareholder is entitled to vote in person, by proxy, by attorney or by representative;
- On a show of hands, each shareholder present in person, by proxy, by attorney or by representative is entitled to one vote;
- On a poll, each shareholder present in person, by proxy, by attorney or by representative is entitled to one vote for every share held by the shareholder.

In the case of joint holdings, only one joint holder may vote.

## Voting by proxy

Shareholders may appoint a proxy or attorney to represent them at a shareholder meeting. If a proxy is appointed and the shareholder attends the meeting then that proxy is automatically revoked.

A corporate shareholder may appoint a proxy, an attorney or a corporate representative.

## Dividend payments

The Company offers shareholders the following choices of how dividend entitlements can be received:

- Cheque mailed to the shareholder's registered address
- Direct Credit Deposit –the dividend is paid directly to the nominated bank account. Direct credits avoid delay in postal delivery and the possibility of lost cheques and are therefore a preferred option.

## Transaction in securities

| | 30 June 2022 | 30 June 2021 |
|---|---|---|
| Total number of transactions in securities during the year | 957 | 494 |
| Total brokerage paid or accrued during the year | 173,618 | 713,197 |

## Principal registered address of the company

The principal registered office is Level 1, 2 and 3 60 Martin Place, Sydney, NSW 2000 Australia. Telephone (02) 8524 9900.

## Registry

Computershare Investor Services Pty Limited, Level 3, 60 Carrington Street, Sydney NSW 2000. Investor Enquiries (02) 8216 5700.

## Stock exchange listing

Quotation has been granted for all the ordinary shares of the Company on all Member Exchanges of the Australian Securities Exchange Limited ("ASX"). The Company shares are traded under the symbol PIA. Details of trading activity are published in most daily newspapers and also obtainable from the ASX website: www.asx.com.au.

## Investment management agreement

The Company has appointed Pengana Investment Management Limited (the Investment Manager), under an Investment Management

Agreement dated 29 January 2004, to manage the investment portfolio of the Company. The Investment Manager manages and supervises all investments of the Company, including providing monthly valuations, for the term of the contract.

### Term

The Investment Management Agreement is for an initial period of 25 years commencing on the date the Company listed on the ASX (March 2004), unless terminated earlier in accordance with terms of the Investment Management Agreement.

### Powers of Manager

For the purpose of carrying out its functions and duties under the Investment Management Agreement, the Manager has the powers of a natural person and absolute and unfettered discretion to manage the investment portfolio and to do all things and execute all documents necessary for the purpose of managing the investment portfolio.

## Management Fee

In return for the performance of its duties as Manager of the Company's investment portfolio, the Manager is entitled to a management fee of 1.2% (excluding GST and RITC) per annum of the gross value of the investment portfolio, payable on a monthly basis.

## Performance fee

The Manager is also entitled to a Performance Fee, equal to 15%m (excluding GST and RITC) of any out-performance of the investment portfolio compared to its benchmark the MSCI World Accumulation Net Return Index in Australian Dollars. The fee is aggregated daily and paid annually, subject to the following:

i) if the aggregate Performance Fee for a Financial Year (including any amounts accrued from a previous year) is a positive amount but the Investment Return of the investment portfolio is not greater than zero, then that Performance Fee shall be carried forward (as an accrual) to the following Financial Year,

ii) if the aggregate Performance Fee for a Financial Year (including any positive or negative amount carried forward from the previous year) is a positive amount but the payment of the accrued Performance Fee would cause the adjusted Investment Return of the investment portfolio for the year to be negative, that portion of the Performance Fee that would cause the Investment Return of the investment portfolio to be negative shall be carried forward (as an accrual) to the following Financial Year,

iii) if the aggregate Performance Fee for a Financial Year is a negative amount, no Performance Fees shall be payable to the Manager in respect of that Financial Year, and the negative amount shall be added to the Performance Fee of the succeeding year.

## Reimbursement of Expenses

The Company must reimburse to the Manager, in addition to its remuneration and rights of indemnification or reimbursement conferred under any other provision of the Investment Management Agreement or by law, all charges and expenses reasonably and properly incurred by the Manager in respect of the Company.

# INVESTMENTS AT MARKET VALUE

As at 30 June 2022

| Company Name | Code | Market Value $'000 | % of Gross Assets |
|---|---|---|---|
| **Communication Services** | | | |
| Tencent Holdings Ltd | BMMV2K8 | 3,061 | 1.1 % |
| CD Projekt SA | 7302215 | 1,691 | 0.6 % |
| Netflix Inc | 2857817 | 1,314 | 0.5 % |
| Meta Platforms Inc | B7TL820 | 5,550 | 1.9 % |
| Alphabet Inc | BYVY8G0 | 10,420 | 3.6 % |
| Pinterest Inc | BJ2Z0H2 | 2,436 | 0.8 % |
| | | **24,472** | **8.9 %** |
| **Consumer Discretionary** | | | |
| Kering SA | PINEFR | 2,847 | 1.0% |
| Nike Inc | 2640147 | 5,238 | 1.8 % |
| Amazon.com Inc | AMAUSD | 6,043 | 2.1 % |
| Lululemon Athletica Inc | B23FN39 | 2,860 | 1.0 % |
| Etsy Inc | BWTN5N1 | 1,475 | 0.5 % |
| Mercadolibre Inc | B23X1H3 | 2,277 | 0.8 % |
| | | **20,740** | **7.5 %** |
| **Consumer Staples** | | | |
| L'oreal SA | LOREFR | 6,088 | 2.1% |
| Hellofresh SE | BYWH8S0 | 1,297 | 0.5 % |
| | | **7,385** | **2.7 %** |
| **Financials** | | | |
| Brasil Bolsa Balcao | BG36ZK1 | 3,727 | 1.0% |
| Aia Group Ltd | B4TX8S1A | 3,713 | 1.3 % |
| PT Bank Central Asia Tbk | B01C1P6 | 4,257 | 1.5 % |
| HDFC Bank Ltd | 2781648 | 5,019 | 1.7 % |
| SVB Financial Group | 2808053 | 7,379 | 2.6 % |
| CME Group Inc | 2965839 | 4,016 | 1.4 % |
| First Republic Bank | B4WHY15 | 8,885 | 3.1 % |
| Tradeweb Market Inc | BJXMVK2 | 3,533 | 1.2 % |
| | | **39,167** | **14.2 %** |
| **Health Care** | | | |
| Roche Holdings AG | ROCCHF | 2,751 | 1.0 % |
| Genmab AS | 4595739 | 2,588 | 0.9 % |
| Abcam PLC | B677469 | 3,430 | 1.2 % |
| Wuxi AppTec Co Ltd | BGHH0L6 | 3,569 | 1.2 % |
| Wuxi Biologics Cayman Inc | BL6B9P1 | 5,136 | 1.8 % |
| Chugai Pharmaceutical Co Ltd | CHPJPY | 1,894 | 0.7 % |
| Edwards Lifesciences Corp | 2567116 | 3,679 | 1.3 % |
| Illumina Inc | 2613990 | 3,825 | 1.3 % |
| Align Technology Inc | 2679204 | 2,555 | 0.9 % |

| Company Name | Code | Market Value $'000 | % of Gross Assets |
|---|---|---|---|
| **Health Care (continued)** | | | |
| Unitedhealth Group Inc | 2917766 | 8,228 | 2.9 % |
| Vertex Pharmaceuticals Inc | 2931034 | 9,801 | 3.4 % |
| Iqvia Holdings Inc | BDR73G1 | 3,140 | 1.1 % |
| Alcon Inc | BJXBP41 | 3,899 | 1.4 % |
| Intuitive Surgical Inc | ISRUSD | 2,585 | 0.9 % |
| Thermo Fisher Scientific Inc | THEUSD | 5,500 | 1.9 % |
| Danaher Corp | DHRUSD | 3,736 | 1.3 % |
| | | **66,316** | **24.1 %** |
| **Industrials** | | | |
| VAT Group | BYZWMR9 | 1,916 | 0.7% |
| Schneider Electric SE | SCHEFR | 7,792 | 2.7 % |
| Spirax-Sarco Engineering PLC | BWFGQN1 | 2,617 | 0.9 % |
| Misumi Group Inc | 6595179 | 1,656 | 0.6 % |
| Atlas Copco AB | BLDBN41 | 2,362 | 0.8 % |
| Epiroc AB | BMD58R8 | 2,652 | 0.9 % |
| Ametek Inc | 2089212 | 6,164 | 2.1 % |
| Deere & Company | 2261203 | 8,357 | 2.9 % |
| CoStar Group Inc | 2262864 | 2,744 | 1.0 % |
| Verisk Analytics Inc | B4P9W92 | 2,806 | 1.0 % |
| Rockwell Automation Inc | ROKUSD | 3,519 | 1.2 % |
| | | **42,585** | **15.5 %** |
| **Information Technology** | | | |
| Xero Ltd | XRO | 971 | 0.3% |
| Sangfor Technologies Inc | BHQPS70 | 498 | 0.2 % |
| Adyen NV | BZ1HM42 | 3,670 | 1.3 % |
| Keyence Corp | 6490995 | 2,482 | 0.9 % |
| Hexagon AB | BNZFHC1 | 5,204 | 1.8 % |
| Paypal Holdings Inc | BYW36M8 | 1,731 | 0.6 % |
| Adobe Inc | 2008154 | 3,568 | 1.2 % |
| Apple Inc | 2046251 | 3,904 | 1.4 % |
| Salesforce.com Inc | 2310525 | 2,577 | 0.9 % |
| Nvidia Corp | 2379504 | 2,056 | 0.7 % |
| Applied Materials Inc | APMUSD | 3,206 | 1.1 % |
| Accenture PLC | B4BNMY3 | 5,164 | 1.8 % |
| ASML Holding NV | B908F01 | 3,538 | 1.2 % |
| Trade Desk Inc | BD8FDD1 | 2,178 | 0.8 % |
| Broadcom Inc | BDZ78H9 | 3,130 | 1.1 % |
| Microsoft Corp | MICUSD | 7,671 | 2.7 % |
| Synopsys Inc | SNPUSD | 5,377 | 1.9 % |
| Taiwan Semiconductor Manufacturing | TAIUSD | 2,923 | 1.0 % |
| | | **59,848** | **21.8 %** |
| **Real Estate** | | | |
| Country Garden Services Holdings Co Ltd | BDQZP48 | 4,081 | 1.4% |
| | | **4,081** | **1.5%** |

| Company Name | Code | Market Value $'000 | % of Gross Assets |
| --- | --- | --- | --- |
| **Total portfolio** | | **264,594** | **96.2 %** |
| Total cash and cash equivalents, income receivables and outstanding settlements | | 10,396 | 3.8 % |
| **Gross assets** | | **274,990** | **100.0 %** |

# CORPORATE DIRECTORY

## PRINCIPAL AND REGISTERED OFFICE

**Pengana International Equities Limited**
Level 1, 2 and 3 60 Martin Place,
Sydney, NSW 2000 Australia

Telephone (61 2) 8524 9900
Facsimile (61 2) 8524 9901

Website www.pengana.com/pia
Email clientservice@pengana.com

## DIRECTORS

**Francis Gooch**
Independent Non-Executive Director and Chairman

**Sandi Orleow**
Independent Non-Executive Director

**David Groves**
Non-Executive Director

**Russel Pillemer**
Managing Director

## COMPANY SECRETARY

Paula Ferrao

## INVESTMENT MANAGER

**Pengana Investment Management Limited**
Level 1, 2 and 3 60 Martin Place,
Sydney, NSW 2000 Australia

Telephone (61 2) 8524 9900
Facsimile (61 2) 8524 9901

Website www.pengana.com
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## INVESTMENT TEAM

**Harding Loevner**
400 Crossing Blvd
Fourth Floor Bridgewater Township
New Jersey 08807, United States

## AUDITOR

**Ernst & Young**
200 George Street
Sydney NSW 2000 Australia

## SHARE REGISTRY

**Computershare Investor Services Pty Limited**
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Website www.computershare.com/au

PENGANA
INTERNATIONAL
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ASX: PIA

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