Zenith INVESTMENT PARTNERS

RECOMMENDED

Product Assessment

Pengana International Equities Limited

Report data as at 31 Oct 2022
Rating issued on 30 Nov 2022

VIEWPOINT

The Company, distributed by Pengana Investment Management Limited (Pengana), provides investors with a socially responsible, benchmark unaware, quality and growth biased global equities exposure. The underlying portfolio is managed by Harding Loevner (HL). Zenith believes the Company is a solid offering, managed by an experienced and well-resourced team. Our conviction in the Company is underpinned by HL's investment process which has been employed successfully since 1989, producing attractive investment outcomes.

Established in 1989, HL is a global equities investment management firm headquartered in Bridgewater, New Jersey. As at 31 October 2022, HL managed approximately $US 52.6 billion firmwide. Pengana appointed HL as the investment manager of the underlying portfolio in May 2021. Zenith has a favourable view of the arrangement between HL and Pengana, believing that it pairs a high quality investment manager with a distribution partner that has a strong domestic footprint.

The investment team of 35 is spread across two offices, Bridgewater and London. The investment team is highly experienced and long-tenured, averaging over 22 years of investment experience and over 10 years with the firm. Zenith views the team's experience and tenure positively, which ensures the consistent application of HL's investment process.

Peter Baughan and Jingyi Li are the co-portfolio managers of the Company. Each portfolio manager is responsible for half the portfolio, which is managed independently of each other. Zenith believes Baughan and Li are experienced investors who possess the requisite skills to successfully manage the Company.

The Company is managed with a multi-faceted ethical framework, aiming to avoid investing in businesses that are, in Pengana's opinion, involved in activities that may be harmful to people, animals or the environment.

Through a fundamentally-driven, benchmark unaware investment approach, HL aims to hold high-quality, growing companies at reasonable valuations. HL favours companies that have competitive advantages, quality management, financial strength and sustainable growth. HL believes companies that possess these characteristics produce superior risk-adjusted outcomes over the long term. Zenith believes that HL's investment philosophy is intuitive.

HL company research is predominantly focused on assessing company quality. Analysts undertake a detailed research process, typically two to three months in duration, which involves analysts meeting with management and company stakeholders. HL employs a standardised, multi-staged discounted cash flow valuation methodology that forecasts 5 to 10 years forward. In addition, analysts identify investment milestones that are linked to the successful execution of company strategy. Overall, Zenith believes HL's stock selection process is comprehensive, providing a strong input for portfolio construction.

Position sizing in each sub-portfolio is agnostic to benchmark weights and driven by the portfolio managers' view of company quality, relative valuations, stock liquidity and overall portfolio risk characteristics. Although Zenith acknowledges the benefits of HL's multiple portfolio manager approach, portfolio manager accountability and moderation of key person risk, it is not our preferred portfolio construction method. Zenith believes this approach leads to less transparency and may affect team cohesion in periods of poor performance.

Prior to May 2021, the Company was managed by Pengana's internal investment team. As such, the Company's performance prior to this date should not be used when assessing HL's performance as the investment manager.

COMPANY FACTS

- Employs a socially responsible screening process
- Expected to hold 35 to 75 positions
- Zenith has assigned the Company a responsible investment classification of **Integrated**

ABSOLUTE RISK (SECTOR)

VERY HIGH
HIGH ◀
MODERATE
LOW
VERY LOW

RELATIVE RISK (FUND WITHIN SECTOR)

Geared
Active - Benchmark Unaware ◀
Active - Benchmark Aware
Index - Enhanced/Fundamental
Index

INCOME DISTRIBUTIONS PER

MONTH | QUARTER | 6 MONTH | ANNUM

INVESTMENT TIMEFRAME

1-2 YRS | 3-4 YRS | 5-6 YRS | 7+ YRS

APIR Code

ASX:PIA

Asset / Sub-Asset Class

International Shares
Global (Unhedged)

Investment Style

Growth

Investment Objective

To outperform the MSCI World Total Return Index, net dividends reinvested, $A (after fees) with lower volatility over the long-term.

Zenith Assigned Benchmark

MSCI World ex Aust $A
PIA Net Portfolio Returns

Net Returns (% p.a.)

	5 yrs	3 yrs	1 yr
Fund	1.71	1.64	-25.59
Benchmark	10.38	8.88	-4.33
Median	8.39	7.09	-8.64

Fees (% p.a., Incl. GST)

Management Cost: 1.23%
Performance Fee: 15.38% of any excess return above the MSCI World Total Return Index, net dividends reinvested $A

APPLICATIONS OF INVESTMENT

SECTOR CHARACTERISTICS

Listed Investment Companies (LIC)

In assessing the performance of the LIC sector, it is vital to understand how their structure affects the final performance figures as it is materially different to unlisted funds. As listed companies, the portfolio returns generated are exposed to additional volatility from share price movements and can trade at significant premiums or discounts to Net Tangible Assets (NTA).

In addition, the impact of pre and post-tax returns needs to be considered because LICs distribute returns net of company tax, whilst benchmark index returns are quoted on a pre-tax basis. Accordingly, it is difficult to accurately compare shareholder returns to either benchmarks which do not account for tax or realised peer group LICs where the timing of company tax on realised gains differs.

As an indication however, a series of return data can be viewed on the basis of the returns generated by:

- Share price and dividends
- Change in pre-tax NTA value and dividends
- Returns generated internally by the investment portfolio

For comparison purposes, the use of the internal portfolio returns versus the benchmark gives the closest measure of the investment manager's skill in generating returns. However, these returns may not be able to be fully crystallised to shareholders given the potential for share price movements.

Caution should be used in the comparison of these figures as share price and pre-tax asset NTA are measures which take into account company tax paid on realised capital gains and unfranked income, whereas benchmark performance is a wholly untaxed measure.

At various times when assessed on a purely quantitative basis, a LIC can trade away from its NTA which may represent good buying or selling opportunities. While these instances may boost investment returns, there is no guarantee that the discount or premium will converge to NTA.

International Equities

International equities offer Australian investors the ability to access a broader opportunity set, with the potential to invest in sectors not represented or not well represented in the Australian market. Given international markets are not perfectly correlated with the Australian market, International equities also afford portfolio diversification benefits.

The Zenith “International Shares - Global (Unhedged)” sector consists of long-only funds that invest in global equity markets. The sector incorporates both benchmark aware and benchmark unaware strategies that focus predominantly on larger capitalisation stocks. The sector is one of the most competitive fields in the investment landscape, based on the number of managers and strategies available to investors.

Zenith benchmarks all funds in this sector against the MSCI World Index ex-Australia (Unhedged), which corresponds with the benchmark employed by the majority of funds in this space. The index is market-capitalisation weighted, resulting in those companies with the largest market capitalisations receiving the heaviest weightings. The index consists of approximately 1,492 securities listed in 22 developed markets (Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom, and the United States) with the United States currently representing approximately 70% of the index; Japan and the United Kingdom being the next largest constituents, with approximately 7% and 4% respectively. Although the index excludes emerging and frontier markets, many funds retain the mandate flexibility to invest in emerging markets.

The global share market, as represented by the MSCI World ex-Australia Index, is far more diverse in terms of sector and stock exposures than the Australian market. Many sectors not well represented in the Australian market, such as information technology and health care, are well represented in the global index, with approximate weights of 23% and 12%, respectively. In addition, the largest 10 stocks represent approximately 19% of the global index, reflecting the greater breadth and less top heavy nature of the global universe.

The Unhedged classification indicates that funds in this universe are currency unhedged, resulting in their returns being broadly affected by fluctuations in the Australian Dollar (AUD) versus other global currencies. Returns of unhedged funds are positively impacted by a depreciating AUD, whilst an appreciating AUD will negatively impact returns.

PORTFOLIO APPLICATIONS

International equities provide investors with a broad exposure to industries and countries. With such a broad universe, it is expected that managers can deliver superior returns to more conservative asset classes. However, the expectation of greater returns comes with increased volatility, especially when currency movements are considered. Therefore, it is recommended that investors adopt a longer time frame when investing in international equities. It is also recommended that investments in international equities are blended with domestic equities and other asset classes such as fixed income to improve portfolio diversification.

HL targets growth companies across both developed and emerging markets. However, given HL also aims to invest in high-quality companies, Zenith expects the Company to have stronger performance relative to peers in falling market environments. In addition, Zenith believes it is suitable for blending with core and/or value-orientated international equities products to achieve a more diversified exposure to the sector.

The Company may also appeal to socially aware investors. The Company is managed with a multi-faceted ethical framework, aiming to avoid investing in businesses that are, in Pengana's opinion, involved in activities that may be harmful to people, animals or the environment.

The Company's currency exposure remains unhedged, which will suit investors seeking an international equity investment with exposure to fluctuations in the Australian dollar. For investors who are concerned about the short-term risks associated with fully unhedged or hedged currency positions, Zenith suggests blending hedged and unhedged global equity exposures to reduce short-term volatility.

The Company's portfolio turnover is expected to be approximately 20% p.a. to 40% p.a., which Zenith considers to be low. HL has indicated that approximately 25% of the expected turnover is attributed to resizing existing positions and approximately 75% is due to initiating and closing positions.

Despite the relative merit of the strategy, investors should give consideration to the mode of access. While an unlisted fund structure may be less convenient for some investors, accessing a strategy via a listed vehicle means that the effectiveness of the strategy may be significantly diminished due to the vehicle's own trading movements. That is, investors may be unable to benefit from the portfolio's performance, as the performance of the vehicle is driven by market sentiment and may trade away from its net tangible assets.

RISKS OF THE INVESTMENT

SECTOR RISKS

Company's within the "International Equities/Listed Investment Company" sector are exposed to the following broad risks:

MARKET & ECONOMIC RISK: Global equity markets present a risk in protracted downturns or bear markets. Changes to economic, social, technological or geopolitical circumstances of a region may lead to different risk return profiles as compared to historically. It may possibly change the equity risk premium profile of the region's equities asset class, impacting on returns. This risk can be mitigated by adhering to the LIC's prescribed investment timeframe.

CURRENCY RISK: Changes to currency values may alter an international equity investment's return if the denominated currency appreciates or depreciates by a material amount. This risk is greatly reduced by the Manager's ability to hedge currencies.

REGULATORY RISK: A change in the geopolitical circumstance of a global region may adversely impact on both the value of the underlying securities and the currency of denomination. In extreme cases, it may lead to exchange controls which limit the ability of foreign investors to repatriate funds to the home country.

LIQUIDITY AND CAPACITY RISK: In some cases, global equities may present low liquidity in particular regions. Emerging markets and small cap stocks may display low liquidity due to low volume and fewer market participants than the major bourses.

PREMIUM/DISCOUNT TO NET TANGIBLE ASSETS (NTA): Investors need to be aware that as a LIC, the Company's shares will have their own trading patterns and may trade away from their Net Tangible Assets (NTA) which at times may impact the effectiveness of the Company's investment process and/or expected risk-return profile.

COMPANY RISKS

Zenith has identified the following key risks of the Company. Although Zenith believes the risks noted are all significant, we have listed them in order of importance. In addition, we have not intended to highlight all possible risks.

KEY PERSON RISK: Zenith believes HL's dual portfolio manager structure reduces key person risk. However, each portfolio manager employs their own unique stock selection process that potentially results in a destabilising effect on the overall portfolio should either depart. In Zenith's view, the departure of either portfolio manager would be a material loss for the Company.

Zenith notes that the portfolio managers are equity holders in the firm, which we view favourably as it aligns them to the success of the business and reduces the risk of departure, at least over the medium term.

CAPACITY RISK: Significant levels of funds under management (FUM) can impact a manager's ability to trade portfolio positions effectively and may limit a Company's potential to outperform. As at 31 October 2022, FUM in the strategy totalled approximately $US 14.8 billion. HL has indicated that the strategy's capacity is between $US 46 billion and $US 50 billion. Given the strategy's current levels of FUM, Zenith does not believe capacity is an issue. However, we note that HL has significant firmwide FUM invested in ex-US and emerging market equities. As such, we will continue to monitor HL's overall FUM invested in global equities to ensure the Company's performance is unimpeded.

INVESTMENT STYLE RISK: HL employs a quality-orientated investment style, which tends to underperform the benchmark in strongly rising markets. Zenith believes investors should adopt a medium to long-term investment timeframe to smooth out short-term volatility.

EMERGING MARKETS RISK: The Company maintains a material allocation to emerging markets. Whilst exposure to emerging markets provides diversification and potential excess returns, it can also be a source of added volatility and may potentially have a negative impact on invested capital.

QUALITATIVE DUE DILIGENCE

ORGANISATION

Pengana International Equities Limited

The Company was listed on the ASX on 19 March 2004, as Hunter Hall Global Value Limited (ASX:HHV). The Company was subsequently managed by Pengana Capital Limited's (Pengana) internal team in July 2017. In June 2021, Harding Loevner (HL) was appointed as the investment manager of the Company.

The Company has no employees.

The Board consists of the following individuals:

- Frank Gooch, Chairman and Non-Executive Director, appointed 5 June 2017
- David Groves, Non-Independent, Non-Executive Director, appointed 27 May 2016
- Russel Pillemer, Non-Independent, Non-Executive Director, appointed 5 June 2017
- Sandi Orleow, Non-Executive Director, appointed 1 September 2019

Zenith is comfortable with the composition of the Board. Given the high importance of shareholder engagement when operating LICs, Zenith believes the Board will need to ensure that this is managed appropriately.

Pengana Investment Management Limited

Pengana is an Australian funds management boutique founded in 2003. Pengana is headquartered in Sydney, with offices in Melbourne, Perth and Brisbane. Pengana's goal is to find and support experienced fund managers with long track records. Pengana provides staff and support for its fund managers, leaving the investment staff entirely responsible for the management and performance of its funds.

In June 2017, Pengana completed a merger with Hunter Hall International Limited (ASX:HHL). As a result, HHL was renamed Pengana Capital Group Limited (ASX:PCG). The combined entity offers a diversified range of equity-based strategies totalling $A 3.27 billion in funds under management as at 31 October 2022.

Harding Loevner

Established in 1989, Harding Loevner (HL) is a global equities investment management firm. Headquartered in Bridgewater, New Jersey, HL was founded by Daniel Harding and David Loevner, former fund managers for the Rockefeller family. Whilst Harding retired from the firm in 2008, Loevner remains actively involved in the firm as the Chairman and Chief Executive Officer.

In 2009, Affiliated Managers Group (AMG) bought a 60% stake in the firm, with staff holding the balance. AMG is an asset management company with equity investments in a range of boutique investment management firms. AMG is not involved in the day-to-day operations of HL.

As at 31 October 2022, HL has extended equity ownership to 37 employees and managed approximately $US 52.6 billion firmwide.

As at 31 October 2022, the Company had a market capitalisation of $A 257.6 million.

INVESTMENT PERSONNEL

Name	Title	Tenure
Peter Baughan	Co-Lead Portfolio Manager	25 Yr(s)
Jingyi Li	Co-Lead Portfolio Manager	12 Yr(s)

Primarily based in Bridgewater, New Jersey, the investment team of 35 is led by Ferrill Roll, who joined HL in 1996 and has over 42 years of investment experience. Roll was previously a co-lead portfolio manager of the strategy, relinquishing responsibilities in 2020 following his promotion to Chief Investment Officer.

The investment team comprises 13 dedicated analysts and 18 portfolio managers, who also undertake stock coverage. The team is spread across two offices, Bridgewater and London. Research coverage is structured along sector and regional lines. The investment team is highly experienced and long-tenured, averaging over 22 years of investment experience and over 10 years with the firm. Zenith views the team's experience and tenure positively, which ensures well considered views and consistency of the investment process.

Peter Baughan and Jingyi Li are the co-portfolio managers of the Company. Each portfolio manager is responsible for half the portfolio, which is managed independently of each other. HL generally has multiple portfolio managers responsible for a strategy to ensure stability in the event of staff turnover.

Baughan has over 39 years of investment experience and has been with the firm since 1997. In 2003, Baughan was appointed as a co-portfolio manager of the underlying strategy. Baughan has analyst coverage of the consumer discretionary sector.

Joining HL in 2010, Li has over 24 years of investment experience. Li replaced Roll as a co-portfolio manager of the strategy in 2021. Prior to his appointment, Li served as a paper portfolio manager (fully tracked portfolio without actual allocated capital) for the strategy. Li has analyst coverage of the industrials and utilities sectors, as well as China.

Zenith believes Baughan and Li are experienced investors who possess the requisite skills to successfully manage the Company.

Baughan and Li are further supported by four paper portfolio managers, whose hypothetical portfolios may be leveraged for investment insights and opportunities.

The investment team has historically maintained a high level of stability, experiencing five departures over the past three years, two of which were retirements.

Remuneration for HL's investment professionals is dependent on three factors: overall firm profitability, the individual's investment results and the individual's level of teamwork and collaboration. Portfolio managers are held accountable for their contribution to the team and overall investment process and the performance of their portfolios. Research analysts are held accountable for their stock ratings, the subsequent performance of those recommendations and for their contribution to the team. In addition, portfolio managers and analysts are eligible to participate in equity ownership. Overall, Zenith believes that HL's incentive-based compensation arrangements are well structured and align the interests of the team with those of investors.

In Zenith's view, the investment team is well-resourced and experienced.

INVESTMENT OBJECTIVE, PHILOSOPHY AND PROCESS

The Company's investment objective is to outperform MSCI World Total Return Index in $A whilst reducing volatility and the risk of losing capital, from investing in an ethically screened and actively managed portfolio of global businesses. Internally, HL aims to outperform the benchmark by 4% p.a. (before fees) over the long term.

The Company is managed with a multi-faceted ethical framework, aiming to avoid investing in businesses that are, in Pengana's opinion, involved in activities that may be harmful to people, animals or the environment.

Through a fundamentally-driven, benchmark unaware investment approach, HL aims to hold high-quality, growing companies at reasonable valuations. HL favours companies that have the following characteristics:

- Competitive advantage
- Quality management
- Financial strength

- Sustainable growth

HL believes companies that possess these characteristics produce superior risk-adjusted outcomes over the long term.

Zenith believes that HL's investment philosophy is intuitive. In addition, we note that the investment process has been employed consistently across HL's investment strategies dating back to 1989, producing attractive investment outcomes.

HL was appointed the investment manager of the Company in May 2021. Prior to this date, the Company was managed by Pengana's internal investment team.

SECURITY SELECTION

The Company's investment universe comprises over 7,500 global companies.

The Company avoids stocks that are involved in activities that may be harmful to people, animals or the environment. Specifically, Company avoids investments in the following market segments:

- Adult content
- Alcohol
- Animal cruelty
- Armaments
- Fossil fuels
- Gambling
- Genetically modified organisms
- Human rights abuses
- Mining
- Nuclear
- Old growth forest logging
- Tobacco

Zenith notes that HL has limited experience managing ethically restrictive mandates. However, we believe the ethical screens will have an immaterial impact on investment outcomes.

HL employs quantitative screens to source investment ideas. HL's screens focus on identifying companies with quality and growth characteristics. Metrics include:

- *Quality*: returns on assets, invested capital and equity, the variability of those returns over time, profit margins, cash flow generation capabilities, and leverage relative to book equity and to market capitalisation
- *Growth*: historical and anticipated growth in earnings, revenues, cash flows, and assets

In addition, investment ideas are identified from qualitative sources such as:

- Competitor analysis
- Customers and suppliers of existing stocks under coverage
- Industry analysis
- Investor conferences
- Professional networks

HL undertakes detailed research on approximately 550 companies, predominantly focusing on assessing company quality. Analysts undertake a detailed research process, typically two to three months in duration, which involves analysts meeting with management and company stakeholders. Analysts are required to evaluate 10 key criteria:

1. Threat of new entrants
2. Threat of substitutions
3. Bargaining power of buyers
4. Bargaining power of suppliers
5. Intensity of industry rivalry
6. Foresight and change management
7. Environmental, social and governance risk factors
8. Strength of free cash flow
9. Balance sheet strength
10. Growth persistence and variability

Each criterion is scored out of 10. The overall scores are used as an input in the valuation and stock rating process.

HL employs a standardised, multi-staged discounted cash flow valuation methodology that forecasts 5 to 10 years forward. Alternative valuation methodologies are utilised to cross-check valuation outcomes. In addition, analysts identify investment milestones that are linked to the successful execution of company strategy. Zenith believes HL's standardised valuation approach ensures ease of comparison between all stocks under coverage.

Stock research is ultimately captured in a Buy, Hold or Sell rating, which signals to portfolio managers the analyst's view of a stock's expected excess returns over the investment horizon (five to seven years). The performance of analysts' ratings is measured annually. Approximately 425 stocks are rated by the investment team. Given HL's long-term investment philosophy, Zenith believes the assessment of analysts' ratings could be further aligned by extending the time frame.

Research is peer-reviewed by the investment team, with analysts often required to perform additional analysis or potentially revise their ratings. Zenith views the peer review process positively, as it ensures that key issues are addressed. Furthermore, we believe HL's experienced team has the requisite experience and expertise to perform this function comprehensively.

Overall, Zenith believes HL's stock selection process is comprehensive, providing a strong input for portfolio construction.

PORTFOLIO CONSTRUCTION

The Company comprises two independent portfolios managed by Baughan and Li. The sub-portfolios are approximately equally weighted, with rebalancing occurring when there is a divergence that is 6% or greater.

Selecting from the list of rated stocks, Baughan and Li are responsible for the construction of their own sub-portfolio. Position sizing in each sub-portfolio is predominantly agnostic to benchmark weights (the weights of the largest companies in the benchmark may be considered) and driven by the portfolio managers' view of:

- Company quality
- Relative valuations
- Stock liquidity
- Overall portfolio risk characteristics

However, the portfolio managers generally aim to hold approximately 50 positions at relatively equal weights.

When the sub-portfolios are combined, the Company is expected to hold between 35 to 75 positions. Initial positions are typically held at 1% weights and are permitted to drift to a maximum of 5%. In general, high conviction positions are a result of further additions rather than position drift.

Zenith notes that the sub-portfolios have historically had relatively limited overlap in exposures and stocks (approximately 30% to 40%), which is somewhat inconsistent with our expectations. Given the portfolio managers operate under the same investment philosophy and process, we would expect the sub-portfolio exposures to be materially higher. However, we acknowledge that the portfolio managers select stocks from a common list of rated stocks, which is aligned with the overarching HL quality-growth investment philosophy.

HL aims to maintain a fully invested portfolio, with the maximum cash limit set at 10%.

As HL does not disclose the underlying holdings and performance of each sub-portfolio, Zenith notes that it is difficult to assess the abilities of the underlying portfolio manager and the effectiveness of the capital allocation outcomes.

Positions are generally sold or reduced due to the following reasons:

- Valuation
- Thesis violation
- Displacement by a more attractive opportunity
- Nearing the 5% position limit

Portfolio turnover is expected to be between 20% p.a. and 40% p.a., which is consistent with HL's long-term investment approach.

Although Zenith acknowledges the benefits of HL's multiple portfolio manager approach, portfolio manager accountability and moderation of key person risk, it is not our preferred portfolio construction method. Zenith believes this approach leads to less transparency and may affect team cohesion in periods of poor performance.

RISK MANAGEMENT

Portfolio Constraints	Description
Security Numbers	35 to 75
Absolute Stock Weight (%)	max: 5%
Absolute Sector Weight (%)	max: 25%
Number of Invested Sectors	min: 7
Active Country Weight (%)	max: 25%
Number of Invested Countries	min: 15
Emerging Markets Weight (%)	max: 25%
Cash (%)	max: 10% (Typically 3%)
ESG Constraints - Excluded Sectors	Adult Content, Alcohol, Animal Cruelty, Armaments, Fossil Fuels, Gaming, Genetically Modified Organisms, Human Rights Abuses, Mining, Nuclear, Logging, Tobacco

The table above highlights the portfolio constraints of the Company.

HL operates within a disciplined framework at the stock selection stage with each portfolio manager required to invest only in stocks that are rated by the investment team, at valuations that are considered reasonable. In Zenith's view, this is an inherent risk management measure as it ensures that a range of individual stock-specific risks are considered before an investment is made.

The portfolio managers are responsible for monitoring the contributions to portfolio risk, including industry risk factors, sector allocations, country exposures, style risks and stock risks.

Zenith is satisfied that HL's risk management processes are embedded throughout the entire investment process and are adequately monitored. However, investors should be aware that there is a significant reliance on the judgement and skill of the co-portfolio managers in mitigating risk in the Company.

Responsible Investment Approach

HL has an established Responsible Investment Policy, last updated in 2020, that guides its investment decisions. In addition, HL is a signatory of the United Nations-supported Principles for Responsible Investment (PRI).

In addition to the specific exclusions as outlined in the table above, HL takes an active approach to environmental, social and governance (ESG) issues. ESG is evaluated as part of the team's fundamental analysis process with any concerns included in the research report on each company.

Zenith believes that this qualitative analysis of a company's operations is crucial on a forward basis, given that a company's performance with regard to ESG considerations is increasingly being reflected in the company's share price. Overall, Zenith is comfortable with HL's approach to ESG.

From a classification scale of:

- Impact
- Thematic
- Integrated
- Aware
- Traditional

Zenith has assigned the Company a responsible investment classification of **Integrated**.

INVESTMENT FEES

LICs can broadly be categorised into two groups from a management cost standpoint on the basis of whether they are internally or externally managed (operating under an IMA). Typically, internally managed LICs have lower proportional management costs due to a larger asset pool. Externally

managed LICs tend to have management costs that are more in line with unlisted managed funds.

Under the IMA, the Company charges management costs of 1.23% p.a. inclusive of GST, net of reduced input tax credits (1.20% ex GST). There is also a performance fee of 15.38% inclusive of GST of the net outperformance of the MSCI World Total Return Index, Net Dividends Reinvested, in $A.

The performance fee is subject to a high watermark, in line with standard industry practice. It is accrued each month as part of the NTA backing per share, calculated daily and paid annually.

For any vehicle that charges a performance fee, Zenith would prefer an additional excess return hurdle (i.e. a target return greater than the index plus the management cost) and considers this best practice.

Overall, Zenith believes the Fund's fee structure is fair, relative to peers, given its stated objectives. However, there is insufficient performance data at this stage to conduct meaningful analysis on whether the fees paid are justified.

WARNING: Zenith ratings applied to LIC/LITs do not explicitly consider prices relative to net assets and do not represent a buy/sell recommendation based on valuations.

PERFORMANCE ANALYSIS

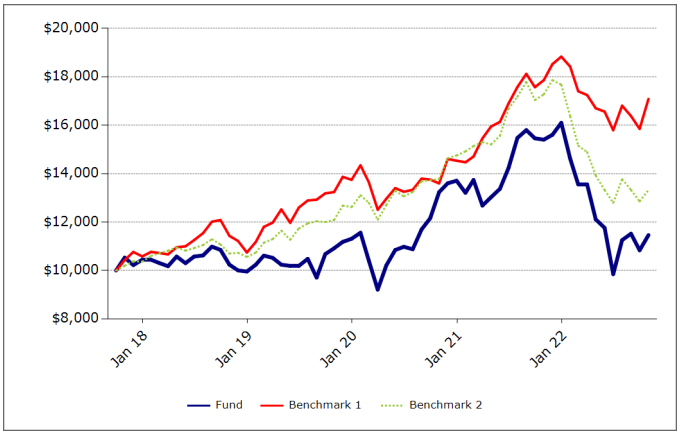
Report data: 31 Oct 2022, product inception: Mar 2004

Monthly Performance History (%, net of fees)

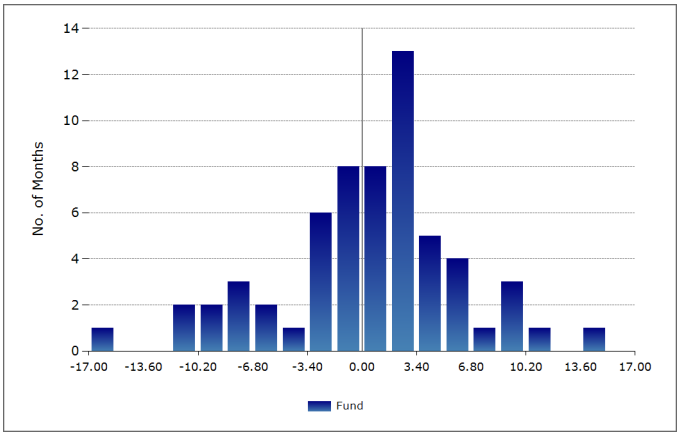
	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	FUND YTD	BM1 YTD	BM2 YTD
2022	-9.22	-7.26	0.00	-10.66	-2.89	-16.27	14.29	2.35	-5.94	5.79			-28.81	-9.27	-24.61
2021	-3.63	4.00	-7.69	2.71	2.66	6.45	8.71	2.09	-2.15	-0.35	1.31	3.17	17.46	29.58	19.83
2020	2.21	-9.96	-11.54	10.87	6.23	1.23	-0.93	7.55	3.95	8.86	2.77	0.77	21.19	5.73	16.87
2019	2.83	3.67	-0.88	-2.68	-0.47	0.00	2.86	-7.41	10.00	2.27	2.40	1.16	13.59	27.97	19.53
2018	0.00	-1.27	-1.29	3.91	-2.59	2.65	0.43	3.43	-1.24	-5.63	-2.29	-0.47	-4.65	1.52	1.89

Benchmark 1: MSCI World ex Aust $A, Benchmark 2: PIA Net Portfolio Returns

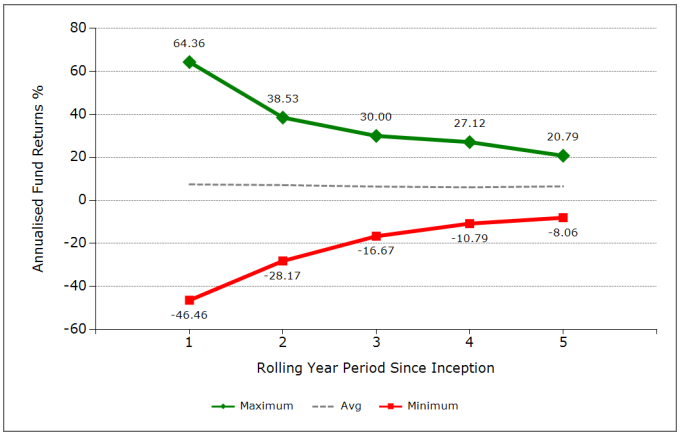
Growth of $10,000



Monthly Histogram



Minimum and Maximum Returns (% p.a.)



ABSOLUTE PERFORMANCE ANALYSIS

Return	Incpt.	5 yr	3 yr	1 yr
Fund (% p.a.)	4.65	1.71	1.64	-25.59
Benchmark 1 (% p.a.)	7.88	10.38	8.88	-4.33
Benchmark 2 (% p.a.)	7.11	5.50	3.30	-22.87
Median (% p.a.)	7.11	8.39	7.09	-8.64
Ranking within Sector	**Incpt.**	**5 yr**	**3 yr**	**1 yr**
Fund Ranking	32 / 32	137 / 140	152 / 171	190 / 207
Quartile	4th	4th	4th	4th
Standard Deviation	**Incpt.**	**5 yr**	**3 yr**	**1 yr**
Fund (% p.a.)	17.50	19.47	23.11	27.58
Benchmark 1 (% p.a.)	11.44	11.99	13.07	14.24
Median (% p.a.)	12.77	12.31	13.86	14.58
Downside Deviation	**Incpt.**	**5 yr**	**3 yr**	**1 yr**
Fund (% p.a.)	12.32	14.07	17.03	23.65
Benchmark 1 (% p.a.)	7.11	7.28	7.99	9.23
Median (% p.a.)	8.13	7.68	8.90	10.32
Risk/Return	**Incpt.**	**5 yr**	**3 yr**	**1 yr**
Sharpe Ratio - Fund	0.07	0.04	0.05	-0.96
Sortino Ratio - Fund	0.10	0.05	0.07	-1.11

Readers should note that unless otherwise indicated, all performance, consistency and risk/return data is referenced to the Zenith assigned benchmark (as represented by Benchmark 1 in the above table) with the LIC returns representing those attributable to shareholders (i.e. share price + dividends). For comparison purposes, Zenith has also included the net returns of the investment portfolio (as represented by Benchmark 2 in the above table) as Zenith believes this is the best measure of the investment manager's skill. However, investors should note that whilst we expect the portfolio returns to be a key driver of the share price over the longer-term, due to the LIC structure, these returns may not be able to be fully realised by shareholders at various points in time.

Investors should note that prior to June 2021, the Company was managed by a different investment manager. As such, the

Company's performance prior to this date is not representative of how the portfolio will be managed going forward.

All commentary below is at 31 October 2022.

The Company's investment objective is to generate consistent long-term returns whilst reducing volatility and the risk of losing capital, from investing in an ethically screened and actively managed portfolio of global businesses. Internally, HL aims to outperform the benchmark by 4% p.a. (before fees) over the long term.

Given the Company's recent change in investment manager, there is currently insufficient performance history to conduct any meaningful analysis.

RELATIVE PERFORMANCE ANALYSIS

Alpha Statistics	Incpt.	5 yr	3 yr	1 yr
Excess Return (% p.a.)	-3.23	-8.67	-7.24	-21.26
% Monthly Excess (All Mkts)	50.45	41.67	47.22	33.33
% Monthly Excess (Up Mkts)	41.48	38.89	47.37	50.00
% Monthly Excess (Down Mkts)	64.04	45.83	47.06	25.00
Beta Statistics	**Incpt.**	**5 yr**	**3 yr**	**1 yr**
Beta	0.70	1.02	1.25	1.60
R-Squared	0.21	0.40	0.50	0.68
Tracking Error (% p.a.)	15.96	15.14	16.70	17.73
Correlation	0.46	0.63	0.71	0.83
Risk/Return	**Incpt.**	**5 yr**	**3 yr**	**1 yr**
Information Ratio	-0.20	-0.57	-0.43	-1.20

All commentary below is at 31 October 2022.

It is important to note that the Relative Performance Analysis shown above combines the Company's price returns with income reinvested and as such does not directly reflect the performance of the underlying portfolio.

Zenith seeks to identify strategies that can outperform in over 50% of months in all market conditions, as we believe this represents consistency of manager skill.

Given the Company's recent change in investment manager, there is currently insufficient performance history to conduct any meaningful analysis.

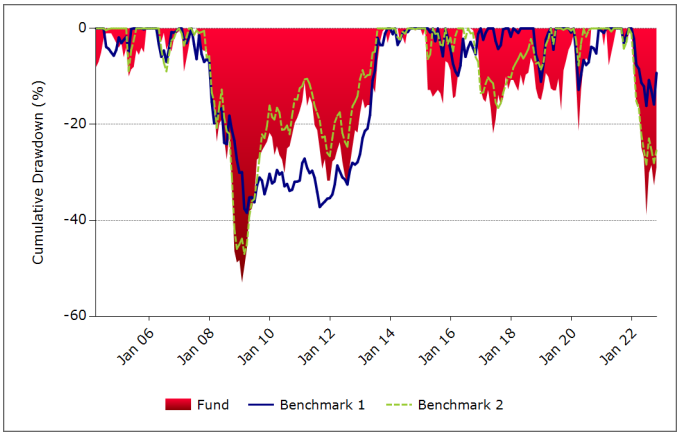
It must be recognised that the Company's own trading pattern will impact deliverable outcomes to shareholders.

DRAWDOWN ANALYSIS

Drawdown analysis assesses the relative riskiness of a Fund versus the benchmark, in reference to capital preservation. The maximum Drawdown is recorded as the percentage decline in the value of a portfolio from peak to trough (before a new peak is achieved). All Drawdown analysis is calculated commencing from the inception date of the Fund in question, and Drawdown analysis for the Fund and benchmark(s) are calculated independently. That is, the largest drawdown for the Fund and benchmark(s) will not always refer to the same time period.

Drawdown Analysis	Fund	BM1	BM2
Max Drawdown (%)	-52.94	-38.41	-46.97
Months in Max Drawdown	18	22	21
Months to Recover	57	56	53

Worst Drawdowns	Fund	Benchmark 1	Benchmark 2
1	-52.94	-38.41	-46.97
2	-38.83	-16.13	-28.39
3	-21.87	-12.79	-16.59
4	-15.68	-11.10	-8.95
5	-10.00	-9.86	-8.91



All commentary below is at 31 October 2022.

Given the Company's recent change in investment manager, there is currently insufficient performance history to conduct any meaningful analysis. We generally expect the Company to exhibit stronger downside protection characteristics relative to the broader equity market due to HL's high quality focus. However, investors should be aware that accessing a strategy via a listed vehicle means that the effectiveness of the strategy may be significantly diminished due to the vehicle's own trading movements. That is, investors may be unable to benefit from the portfolio's performance, as the performance of the Company is driven by market sentiment.

REPORT CERTIFICATION

Date of issue: 30 Nov 2022

Role	Analyst	Title
Author	Quan Nguyen	Head of Equities
Sector Lead	Quan Nguyen	Head of Equities
Authoriser	Bronwen Moncrieff	Head of Research

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RATING HISTORY

As At	Rating*
30 Nov 2022	Recommended
24 Nov 2021	Recommended
6 Aug 2021	Recommended
26 Apr 2021	Not Rated - Screened Out
25 Mar 2021	Redeem
2 Jun 2020	Recommended
23 May 2019	Recommended
5 Jun 2018	Recommended

Last 5 years only displayed. Longer histories available on request.

*In March 2021, Zenith implemented a new ratings methodology for products classified as Traditional Index. Any rating issued from this date forward for Traditional Index products only reflect this change in methodology, with the relevant Traditional Index ratings being Index Approved, Index Recommended and Index Highly Recommended. Ratings issued for Traditional Index products prior to March 2021 are retained for historical purposes in line with our regulatory requirements and were issued in line with Zenith's Fund Research Methodology. Further information in relation to Zenith's Traditional Index Research Methodology and Traditional Index Ratings can be found on the Zenith website.

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