



Qualitative Fund Research

Pengana International Equities Fund

October 2017

About the Manager

Pengana Capital Group (the Manager, Pengana) is a diversified funds management business founded in 2003. In 2017 NAB sold its Pengana holdings to Washington H Soul Pattison (ASX code WHSP). Further to this, in 2017, Pengana merged with large ethical managed fund business, Hunter Hall. Hunter Hall's ethical framework has been retained across most of Hunter Hall's investment products. Further information regarding Pengana can be found [here](#).

Pengana's investment products focus on active strategies with non-benchmark mandates. This provides investment teams with the freedom to invest in their best ideas. Pengana's business model provides a centralised corporate support platform so fund managers can focus on what they do best - managing portfolios.

Pengana doesn't have a publicly available corporate governance or citizenship statement, other than the ASX June 2017 ASX Market Announcement that applies directly to Hunter Hall International Ltd (ASX: PCG), available [here](#).

[Pengana](#) offers 15 funds in total, including four [Hunter Hall](#) managed funds. Pengana has engaged with FundSource to produce qualitative research for two Australian Unit Trusts (AUT):

- [Pengana International Equities Fund](#)
- Pengana Global Small Companies Fund
- Pengana Absolute Return Asia Pacific Fund
- Pengana Australian Equities Fund
- Pengana Emerging Companies Fund
- Pengana International Equities Managed Risk Fund
- Pengana PanAgora Absolute Return Global Equities Fund
- Pengana WHEB Sustainable Impact Fund
- Hunter Hall Australian Value Trust
- Hunter Hall Global Equities Trust
- Hunter Hall High Conviction Equities Trust
- Hunter Hall Value Growth Trust

The international equity investment team consists of six members, all of whom have research functions on the underlying investments. Pengana provides all other functions for the AUT, and the funds are distributed in New Zealand by [Heathcote Investment Partners and Craigs Investment Partners](#). Individual bios for the international equity investment team can be found [here](#). Pengana's [management team](#) and [Board](#) are detailed on the website.

Using this Fund

This is General Advice only and should be read in conjunction with the Disclaimers, Disclosures and Warnings at the end of this document.

The Pengana International Equities Fund ("the Fund") provides exposure to globally listed companies, ranging from small cap to large cap, and across developed and developing markets. As such the Fund, will generally sit within the growth assets of a diversified portfolio.

The Fund typically invests in 30 – 50 companies, which is managed to a series of soft benchmark based criteria, to assist in managing portfolio risks. The Manager expects returns to be driven by investing in companies across core, cyclical, and opportunistic categories, as defined by the Manager.

The Manager clearly outlines the different requirements for the core, cyclical and opportunistic categories, and the type of stocks an investor should expect each category to consist of. Accordingly, each category impacts the portfolio construction process. The Manager's skill will, in part, be reflected in the ability to manage the allocation between the three categories, both from a buy and sell perspective. Due to the concentrated nature of the Fund, the Fund is suitable for investors with an investment horizon that is greater than five years.

The Fund is an Australian Unit Trust (AUT) structure, the Fund pays distributions twice yearly, in June and December.

Question	What the Manager says	What FundSource think																														
What are the Manager's assets under management - in total and in this Fund?	<p>\$A3.2b in total which includes \$31.4m in this fund</p> <p>As at 31 August 2017:</p> <table><tr><td>International Equities</td><td>\$ 31.4m</td></tr><tr><td>Global Small Companies</td><td>\$ 30.5m</td></tr><tr><td>Absolute Return Asia Pacific</td><td>\$ 31.7m</td></tr><tr><td>Australian Equities</td><td>\$1,363.0m</td></tr><tr><td>Emerging Companies</td><td>\$ 775.0m</td></tr><tr><td>International Equities</td><td></td></tr><tr><td>Managed Risk</td><td>\$ 2.1m</td></tr><tr><td>PanAgora Absolute Return</td><td>\$ 133.0m</td></tr><tr><td>Global Equities Trust</td><td>\$ 70.7m</td></tr><tr><td>WHEB Sustainable Impact</td><td>\$ 3.4m</td></tr><tr><td>Hunter Hall Global Equities Closed to new investors</td><td>\$ 69.4m</td></tr><tr><td>Hunter Hall High Conviction Equities</td><td>\$ 28.1m</td></tr><tr><td>Hunter Hall Value Growth</td><td>\$ 355.6m</td></tr><tr><td>Global Value Ltd (ASX: HHV)</td><td>As per ASX</td></tr><tr><td>TOTAL:</td><td>\$3,200.1m</td></tr></table>	International Equities	\$ 31.4m	Global Small Companies	\$ 30.5m	Absolute Return Asia Pacific	\$ 31.7m	Australian Equities	\$1,363.0m	Emerging Companies	\$ 775.0m	International Equities		Managed Risk	\$ 2.1m	PanAgora Absolute Return	\$ 133.0m	Global Equities Trust	\$ 70.7m	WHEB Sustainable Impact	\$ 3.4m	Hunter Hall Global Equities Closed to new investors	\$ 69.4m	Hunter Hall High Conviction Equities	\$ 28.1m	Hunter Hall Value Growth	\$ 355.6m	Global Value Ltd (ASX: HHV)	As per ASX	TOTAL:	\$3,200.1m	<p>Penganga Capital and Hunter Hall International announced their merger on 1 June 2017, creating Pengana Capital Group (ASX: PCG). Post the merger, the Manager has a broad range of products available to the market. Post the acquisition of Hunter Hall the Manager has been undertaking a review process, which will lead to some consolidation of funds. The latest information and updates relating to the Pengana suite of funds can be found here, and Hunter Hall funds can be found here.</p> <p>The Fund was launched on 1 July 2015, and represents one of four funds managed by the investment team. The International Equities Fund has funds under management (FUM) of \$31.4 million, as at 31 August 2017. This is relatively low and in isolation could be cause for concern. However, the Funds low FUM is mitigated by the Managers total FUM of \$3.2 billion, and the relatively short period in which the Fund has been operating, mitigates corporate risk.</p>
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Who is accountable for managing the Fund, and how long has the investment team worked together?	<p>The CIO and the Portfolio Managers are responsible for managing and overlooking the daily activities on the fund. The investment team has worked together since the inception of the fund.</p>	<p>The Chief Investment Officer (CIO) and Portfolio Manager (PM), Jordan Cvetanovski, co leads the Fund with Steven Glass, Head of Research and PM. Biographies for all investment team members are available here. FundSource notes the Manager tenure is shorter, with the investment team coming together over the last three years. FundSource highlights tenures of less than three years is typically a red flag. However, several investment team members have worked together previously, at Hunter Hall. Still, the team is relatively new and FundSource will be keeping a close eye on changes.</p> <p>The CIO is comfortable with the current team size, which is predicated on the basis that PM's manage investment not people, and that a smaller team makes it easier to have "everyone rowing in the same direction". The co-PM's employ a collegiate approach to decision making, and expect all team members to contribute to company and portfolio discussions. Ultimately Cvetanovski is responsible for the Fund. Analyst functions are generalist in nature, however each analyst may focus on areas or sectors of expertise.</p> <p>Both Cvetanovski and Glass can execute trades in the portfolio, and Ronald Yu, Analyst, provides trading support, under instruction only. FundSource would prefer to see trade execution functions separated from the investment team, however understands that this is a relatively new team and Fund. FundSource also notes</p>																														

		that the Manager is undergoing change, post the merger.
What objective is the Manager trying to achieve?	The Fund's investment objective is to deliver returns that are greater than the MSCI All Country World Total Return Index (net, AUD) with lower volatility than the Index, over the medium to long term.	<p>FundSource notes that the Fund does not provide specific guidance on the quantum of outperformance above the benchmark, an investor can expect over the medium to long term. However, based on how the Fund can invest, FundSource acknowledges that the reference benchmark is appropriate.</p> <p>The Fund was inceptioned in July 2015, and has a track record less than three years. This performance history is short, preventing FundSource from completing meaningful analysis to develop a meaningful understanding of how Manager skill translates in to the Fund performance. FundSource has reviewed the underlying managers, and notes that their track record mitigates the Funds lack of track to a small degree.</p> <p>The Manager reports performance on a net of fees and expenses, and assumes reinvestment of distributions, as detailed on the Funds factsheets. Further information is available on the New Zealand Government's Disclose website here.</p>
What does the Manager invest your money into?	The Fund invests principally in listed (or soon to be listed) global equities.	<p>The Manager classifies global companies in to core, cyclical, and opportunistic categories. This enables the Manager to establish a set of well-defined characteristics for each category, and quickly identify a small investment universe that meets those criteria. The Manager has freedom to express its ideas in the Fund, by investing in emerging and developed markets, and investing across small, mid, and large cap companies.</p> <p>The Manager selects companies using six key criteria. FundSource highlights that each company must meet most if not all the criteria. Those being, positive tailwinds, good management, unlikely to blow up, cash generating, reasonable valuation and growing. Combined with a mix of hard and soft risk management guidelines the process can appear a little dogmatic. Simple, however, is not always easy to implement. The guidelines in place should assist the Manager in remaining true to its logical, common sense approach to investing.</p> <p>The Manager's process looks to develop conviction in an idea. The process is predominantly bottom up stock selection, however does consider top down macro sector and country overlays. The Manager views their role as being a business owner, and not trying to predict quarterly or annual earnings. Rather the investment team looks to invest in companies that will generate more cash than what was paid to own that company. Cash flow consistency and growth are fundamental to the Funds investment approach.</p>

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		<p>There is no requirement for an AUT to publish portfolio holdings in New Zealand, putting New Zealand investors at a disadvantage to investing in a registered PIE fund, which must provide a holding disclosure via the New Zealand governments Disclose website.</p>
<p>What are the inherent risks imbedded in the Fund?</p>	<p>The significant risks of investing in the Fund are:</p> <p>Individual Investment Risk: The value of the Fund's portfolio may be affected by unexpected changes in the value of the investments in the portfolio. Such changes may be due to unexpected company specific issues that impact the market value of the individual investments.</p> <p>International Investing Risk: The Fund primarily holds investments in global securities listed on approved exchanges. Risks of international investing may include currency fluctuations, foreign tax, different market and settlement practices, adverse political and economic developments, limited liquidity, foreign exchange controls and investment restrictions. Regulatory intervention can also materially affect the Fund's ability to implement its investment strategy and adversely affect the Fund's performance.</p> <p>Currency Risk: The Fund will invest in various countries including Australia. If the currencies of those other countries change in value relative to the Australian dollar, the value of these investments may change and may negatively affect the Fund's return. Additionally, any hedging of foreign exchange exposures undertaken by the Fund may not provide complete protection from adverse currency movements or a counterparty to such hedging transactions may default on their obligations to the Fund.</p>	<p>Other than the risks stated by the Manager, FundSource views the relatively short period some of the team members have worked together as being a risk. Accordingly, investors should be aware of the team's tenure and this should be considered when making a decision to invest in the Fund. FundSource will be reviewing this aspect regularly. Any loss in personnel would be considered a significant negative event. As the team tenure builds the current key person risk associated to Cvetanovski and Glass will reduce, however, at this point in time both are seen as critical to Fund's success.</p> <p>FundSource notes that Cvetanovski is the key architect of the current investment process, being employed by the Manager. Cvetanovski is leveraging a process he previously used, which has been tested through a full market cycle. FundSource notes that minor changes to a process can lead to different outcomes. In saying that, the process is relatively straight forward, and proven to work, however, FundSource cautions that implementation and execution is where the process comes to life, and determines if the Manager has been successful in keeping adhering to the simple principles of the process. The Fund's history is currently too short to determine how successful the Manager has been in implementing the Fund's process.</p> <p>The Manager also employs a set of hard and soft rules which determine if a company meets its investment criteria, the mechanistic benchmark based guidelines should prevent the Fund adding excessive risk in to the portfolio.</p>
<p>Why does the Manager believe the future prices of the Fund's investments will vary?</p>	<p>The Manager invests in high cash-flow generative companies with favourable outlooks that are trading at attractive valuations. While these opportunities are scarce, they are available in a variety of businesses, which can be identified and acted upon with rigorous fundamental research in an environment of intellectual freedom and strong risk management.</p>	<p>The rules and guidelines that the Manager has put in place play a significant role in determining the companies that are invested in or sold.</p> <p>The Core portion of the portfolio is viewed as the 'sleep at night' category, and will always represent 60-80% of the Fund's allocation. This will represent longer term buy and hold companies, therefore turnover is expected to be lower in the core portfolio.</p> <p>The Manager can incorporate cyclical opportunities, which can range in aggregate from 0-30% of the portfolio. Cyclical companies will have a greater macro input, due the Manager needing to</p>

		<p>identify that an industry is poised for an upturn. The Manager views this as the buy and sell, and therefore portfolio turnover is expected to be higher.</p> <p>Unique company situations do arise, to harness this the Manager has created an opportunistic category, which will always account for 0-20% of the portfolio. This category is expected to have the highest portfolio turnover.</p> <p>In all cases the Manager must ensure all companies meet a series of criteria, starting with free cash flow, to ensure they fit in to their respective category. Each category dictates the maximum positive size the stock can represent in the portfolio. The Manager believes its sources of value add are based around ~80% from that fundamental research, and ~20% comes from top down sector/ country/ segment overlay.</p>
Why does the Manager believe you should give them your money rather than to someone else or to an inexpensive index fund?	<p>Ability to know what constitutes an opportunity – capacity to generate free-cash-flow and what we pay for that free-cash-flow; this is an art and a science. Freedom to invest within a broad opportunity set – value and growth; developed and emerging markets; all sectors; small caps to mega caps. Knowing how to bring the opportunities together – apply portfolio segmentation strategy rather than index weights. Application of strict rules with respect to portfolio construction and sell discipline.</p>	<p>The Fund is governed by a large number of hard and soft rules and guidelines. These are based around ensuring the Manager does not introduce too much risk, intended or unintended, to the portfolio.</p> <p>The Manager is unconstrained by markets, investing in both developed and emerging markets, and across small to large cap companies. Underpinning this is a series of principles the Manager looks for in each company. FundSource views the Manager's pillars of sustainable and growing free cash flow, proven management, leading and growing market share, low balance sheet risk, positive change, and a reason for being, as being complicated. Investors should not assume simplicity means easy. Implementing simple processes consistently can often be difficult.</p> <p>The Fund has shown promising performance since inception (July 2015) and over one year, net of fees and expenses, and assuming distributions have been reinvested. This is available on the Manager's website, and the Funds factsheet. Compared to the 124 funds in the FE Analytics NZMI Equity Global sector, the Fund has outperformed the peer group average, which is encouraging, despite its short history. FundSource notes that the Funds's performance history is too short to meaningfully evaluate. Further performance data is available via the Disclose website and FundSource.</p>
How does the Manager decide to buy or sell investments?	<p>The Fund's Investment Team reviews scores of investment opportunities as an integral part of the idea generation, company assessment and portfolio management processes. An understanding of the opportunities, fundamentals and outlooks are developed using financial statements, journals, transcripts, company meetings and external research.</p>	<p>The Manager's process is very deliberate and methodical, and applied to all categories, core, cyclical and opportunistic. Importantly the Manager doesn't view the Fund as having a specific investment style, seeing the investment process as being evergreen, or market agnostic in nature.</p>

	<p>Opportunities that meet the criteria of a portfolio segment (Core, Cyclical or Opportunistic) are candidates for the portfolio. The portfolio is created from the best ideas and within the risk management guidelines, which include maximum country, industry and portfolio segment exposures. Core is always 60-80% of the portfolio and consists of companies that generate consistent and growing free cash flow, have a track record of competent management and are supported by favourable long-term tailwinds. Cyclical is always 0-30% of the portfolio and consists of companies that generate healthy but more variable free cash flow, reflecting higher exposure to external macro-economic factors, and are at a point of their cycle that we believe warrants investment. Opportunistic is always 0-20% of the portfolio and consists of companies that are either growing rapidly or have experienced a material but temporary setback. Key criteria targeted in the research process:</p> <ul style="list-style-type: none"> • High, sustainable & growing cash generation • Leading or growing market shares • Company has a "reason for being" • Competent management • Low balance sheet risk • Favourable secular trends • Reasonable valuation - FCF yield & growth • Positive change 	<p>While the Manager may have conducted a complete review of a company, taking a position in a company is dependent on the category and the macro environment at the time. The Manager is prepared to show patience when buying in to a new portfolio position. This Manager is very aware that a great company on paper can be expensive for sustained periods. The Manager employs a portfolio construction process based around replacing the existing companies rather than continually adding new names to the portfolio. This helps the Manager maintain the conviction they have in existing portfolio holdings, and make changes when better opportunities arise.</p> <p>The Manager's sell decisions are primarily based around any deterioration in the key eight factors, or any materially negative change in cash flows, or company management. The Manager uses stop losses to assist in managing downside risk for the cyclical and opportunistic categories. A stop loss triggers a sale in a stock, when it falls below a predetermined price.</p> <p>The Fund seeks to avoid companies that sit within the tobacco, gaming, animal husbandry, and defence industries. Based on Manager data, at the date of this report, that excludes ~630 companies. FundSource notes that some of the companies in the excluded industries do exhibit many of the Manager's eight key criteria. FundSource commends the Manager in taking a stance they believe in, and being very clear about that stance. This ensures investors can make an informed decision with respect to investing with the Manager.</p>
Has the CIO/ Portfolio Manager personally invested in the Fund? If so, paying the same fees as other investors?	Both the CIO and Portfolio Manager are invested in the fund and their investment has increased over the last 12 months.	<p>FundSource believes that the interests of investment personnel are better aligned to those of the investors, when investment personnel are significantly invested, and at the same fees.</p> <p>The Manager believes this to be an important aspect as well, and accordingly, key investment personnel are invested in the Fund, as well as other funds managed by Pengana. Effectively the investment team are eating their own cooking, bringing strong investor alignment.</p> <p>FundSource does expect that investment personnel should to be paying the same fees as other investors, to ensure the experience of both parties is symmetrical. FundSource notes that the staff at Pengana pay the same fees as investors.</p>
How much latitude does the Manager have to deviate from the weightings of the Benchmark portfolio?	The Fund's investment mandate has the ability to invest in companies across the market capitalisation spectrum, it is benchmark agnostic and the portfolio of stocks will be concentrated, typically 30-50 stocks. The Fund will be long only and the investment objective is to outperform the	The Manager has purposefully developed an evergreen investment style to provide flexibility in identifying opportunities, which is contained within a reasonably tight risk management framework. Risk management ranges for the Fund are a mix of hard and soft parameters, and

	<p>MSCI All Country World Total Return Index (net, AUD) with lower volatility over the medium to long term.</p> <p>Tracking Error n/a Cash: 0% to 20% Single Security: 1% to 5% Single Sector: 0% to 25% Country/ Region: <20% above Index weight for US & Europe Derivatives: 0% to 10%</p> <p>Category Structure Core 60 – 80% of Fund 15 – 30 stocks 5 – 15% growth Free Cash Flow Yield > Risk Free Rate + 3% Stable and growing companies with favourable tailwinds Portfolio position size: 1-5%</p> <p>Cyclical 0 – 30% of Fund 0 – 15 stocks >10% growth FCF Yield (cyclically adjusted) > Core Operating in cyclical industries that are poised for an upturn Stop losses used Portfolio position size: 1-3%</p> <p>Opportunistic 0 – 20% of Fund 0 – 10 stocks Unique company specific situations with attractive potential upside Stop losses used Portfolio position size: 1-3%</p>	<p>derivative exposures are exchange traded only, to reduce counterparty risk. The Manager has established a set of basic filters to assist in identifying potential investments for the portfolio, built around five key basic criteria. Companies must exhibit the following characteristics, positive free cash flow, growing revenue, a market cap of >\$1.5 billion, <4x leverage, and are not excluded industries. Changes in any of these parameters may lead to selling the company.</p> <p>From a currency perspective, the Fund is typically unhedged, therefore performance may be negatively or positively impacted by movement in currencies, not only from an AUD:NZD perspective, as the Fund is an AUT, but within the Fund, depending on which exchange companies are bought through.</p>
On what basis does the Manager believe the fees they charge are justified?	<p>We have done fee comparisons with regard to other competitive funds and believe that our fee structure is favourable for investors. There are no entry or exit fees - only management fees.</p>	<p>FundSource believes the Manager is transparent from a fees perspective, noting the annual fund charge is capped, as disclosed in the Product Disclosure Statement (PDS).</p> <p>Of the 124 FE Analytics NZMI Equity Global sector peer funds, the Funds fee is in line with the average fee charged in the FE analytics peer group.</p>
How would you describe the quality of your organisational and investment governance processes?	<p>Pengana is one of the well-known fund managers in the market with a reputation of having strong governance and management. Pengana has appointed external parties as service providers and has strong internal control systems and checks to comply with the standards. Pengana has ensured that a risk management culture has been embedded into all business units within compliance, operations, finance and investment risk management. Key personnel within Pengana are responsible for different elements of the risk control process. Most of these responsibilities lie with the COO/CFO and CIO. Both individuals provide assistance to the Board of Directors in fulfilling its corporate governance and oversight responsibilities</p>	<p>The Manager avoids several industries, tobacco, gaming, animal husbandry and defence. While Pengana is cognisant of environmental, social and governance (ESG) frameworks investment teams have discretion over where they will invest. Systems such as Sustainalytics are available, but are not embedded in to the process. This may change in the future.</p> <p>Risk management controls and governance are embedded in to the software systems employed by the Manager. FundSource notes the Pengana Group CIO is Nick Griffiths. Jordan Cventanovski, in his capacity as CIO of International equities, has ultimate responsibility for four funds at present. Griffith chairs the risk committee. Griffith</p>

	<p>in relation to the Pengana Group companies' financial reporting, internal control structure, risk management systems and compliance framework and the external audit functions. Philosophically we believe that risk is best managed by planning for the consequences of risk events rather than trying to predict them.</p>	<p>shares the risk oversight with COO/CFO Katrina Glendinning, who sits on Compliance and Risk Committees. The Risk Committee consists of internal members only. The Compliance Committee consists of three people, two being external members. FundSource views independence in the oversight of a Responsible Entity as important. FundSource would prefer to see some independent members represented across all key committees.</p> <p>FundSource highlights the Pengana Board is a blend of previous Hunter Hall and Pengana Board members. The Pengana Board consists of six members who, other than Chief Executive Russell Pillemer, are non-executive directors. FundSource is cognisant that Pengana in its current guise is relatively new, coming together in 2017 and accordingly FundSource is mindful of any changes in the board and executive team in the near future.</p>
Is there alignment of interests through; ownership of the Manager, and remuneration of the investment team?	<p>There is a clear alignment of interest between the Manager and the investment team. Senior investment professionals have direct profit shares in their funds and are rewarded for fund performance and assets under management. Each Fund is accounted for as a separate business unit within Pengana Holdings. Pengana and the funds management team share in the profits generated by the business unit in a fixed proportion. Pengana funds the business unit until it becomes profitable. Pengana's directors and staff have significant ownership interests in the business. Compensation is a combination of base salary and equity or a share of profits in the business unit.</p>	<p>Pengana, through its merger with Hunter Hall, and development of new investment product and investment teams, has undergone significant growth and change over the past three years. FundSource believes that the board and executive team have strong industry histories to navigate a positive but turbulent period.</p> <p>Change and growth have also been as active in the investment teams and product suite, some by establishing new products, and by merger. While some funds may not be profitable, Pengana has been well supported in the market historically, and continues to manage a reasonably large sum of funds on behalf of investors.</p> <p>The compensation of investment personnel is in line with industry standards, noting that the investment teams own the P&L's of the funds they manage and can share in the profits generated, as well as investing in the funds this produces a quasi-ownership of the Fund.</p>

Conclusion and Rating

The Fund provides investors with exposure to an agnostic unconstrained concentrated portfolio of global companies. The portfolio comprises core, cyclical and opportunistic components, which have a set of criteria to ensure risk is contained within a set of parameters. The portfolio structure allows the Manager to remain active, while maintaining a lower turnover core portion of the portfolio. FundSource believes that investors considering this Fund, should have an investment timeframe greater than five years.

Pengana has undergone significant corporate change over the course of 2017, firstly being sold to WHSP, by the NAB, and merging with Hunter Hall. This degree of activity can usually be a red flag, fortunately for the Pengana business this does not appear to be the case, with little change in key personnel, other than NAB directors being replaced by Hunter Hall directors. Key executive roles have remained largely the same for Pengana, post NAB. FundSource views the degree of activity can be distracting, particularly for the investment team. Some changes are expected as the Hunter Hall merger continues.

FundSource observes the investment team has strong industry experience, but relatively short Manager tenure. FundSource believes Manager tenure is an important factor and something to review in the future. While cautious, FundSource assesses the investment team based on its current composition and does not speculate on teething

problems or potential investment team departures. FundSource believes the investment team is adequately resourced to manage a concentrated global equity, based around the hard and soft risk control frameworks that assist in managing the portfolio.

The interests of the investment team are aligned to those of the investor, by investment in the funds they manage, and paying the same fees as retail investors. This degree of alignment is viewed positively.

FundSource notes the manager's basic fee is in line with the average FE Analytics NZMI Equity Global peer fee, and no performance fees are charged.

FundSource views this Fund to be the flagship fund managed by this investment team, despite its short track record, commencing in 2015. How the Fund reacts to market change, and the Manager adjusts the portfolio, proactively or reactively, remains a little unclear and presents the greatest risk, this will develop and become clearer over time.

FundSource recommends that investors carefully consider that the Managers approach to managing a concentrated international equities portfolio, meets their investment needs and objectives.

FundSource Rating: **AA**

Fund ratings are current as at the date of publication of this report. FundSource reserve the right to review and update fund ratings from time to time.

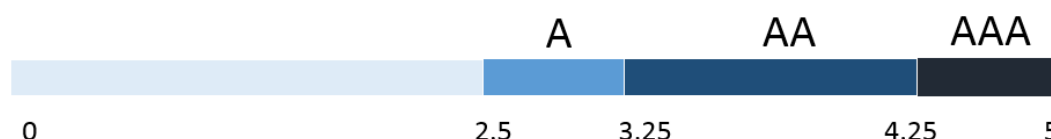
Research Factor Weighting

Research Process Category	Model Factor Weight	Analyst Average Score
Corporate & Investment Governance	15%	4.25 / 5
Investment Philosophy & Process	20%	3.80 / 5
People	25%	3.00 / 5
Portfolio Construction & Implementation	15%	3.67 / 5
Risk Management	15%	4.40 / 5
Investment Fees	10%	4.14 / 5

Overall Average Score: 3.77 / 5

FundSource Rating Guide

The qualitative rating of a fund is a function of the FundSource Research Factor Weighting process, which is built around the six core qualitative research process categories. The weighted scores result in an overall score, out of five, which is then matched to the following rating:



AAA: Highly Recommended

Funds that have superior average scores in all six underlying qualitative factors. This recognises aspects about the Manager and Fund in question that includes, but is not limited to, significantly experienced and stable senior personnel, a sound track record over a full market cycle, a clearly defined investment philosophy and process, and a portfolio consistent with that philosophy and process. The management company will also have established effective controls to maintain that philosophy.

AA: Recommended

Funds that have strong average scores in all six underlying qualitative factors. This recognises aspects about the Manager and Fund in question that includes, but is not limited to, experienced and stable personnel, a sound track record over a full market cycle, a clearly defined investment philosophy and process, and a portfolio consistent with that philosophy and process. The management philosophy must be coherent and consistent with existing portfolios and processes.

A: Investment Grade

Funds that have good average scores in all six underlying qualitative factors. This recognises aspects about the Manager and Fund in question that includes, but is not limited to, experienced personnel, a sound track record a defined investment philosophy and process, and a portfolio consistent with that philosophy and process.

FW: Fund Watch

There has been a material change with either the manager, this may include, but is not limited to, departures, new hires, process changes, changes to the investment philosophy. This is considered to be an interim measure, to enable further investigation, re-evaluation and an appropriate course of action to be determined.

S: Sell

This category covers previously recommended funds that are no longer recommended because of some material change. Removal from recommended status might be for a variety of reasons such as a fundamental change in the fund management company or in the manager's investment strategy, or because a fund did not meet its original expectations. The implications for ongoing service are that the fund should be reviewed on an individual client basis to ensure it still matches their original investment objective.

NR: Not Rated – Screened/ Not Rated

Funds in the Not Rated – Screened category have provided information and/or FundSource has conducted an initial analysis of the fund, but has chosen not to provide a recommendation at this stage. FOR Not Rated funds the manager may have provided information, but no review meeting has been conducted

Disclaimers, Disclosures and Warnings

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