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Message from the CIO

Jordan Cvetanovski
CIO and Portfolio Manager

The 2Q23 quarterly report's Stock in Focus was TSMC. That note made mention of a potential China-Taiwan conflict as one of the most cited risks facing TSMC. This note explores Pella's views of the broader impact of such a conflict. From our perspective, **if you are truly concerned about a China-Taiwan conflict, some exposure to TSMC should not be your most pressing concern.**

TSMC is the world's largest manufacturer of logic integrated circuits (ICs). Most of TSMC's manufacturing capacity is in Taiwan and those facilities could be destroyed/materially damaged in such a conflict. Without the ability to manufacture ICs, TSMC's earnings would take a material hit and its very existence could be threatened. It follows that some investors might question how Pella rationalises these risks.

The threat of such a scenario is not only an issue for investors in TSMC, but it would also be hugely problematic for large sections of the share market and the global economy. Our contention is that anyone avoiding TSMC exclusively due to the threat of a China-Taiwan conflict should not have meaningful exposure to virtually the entirety of the share market.

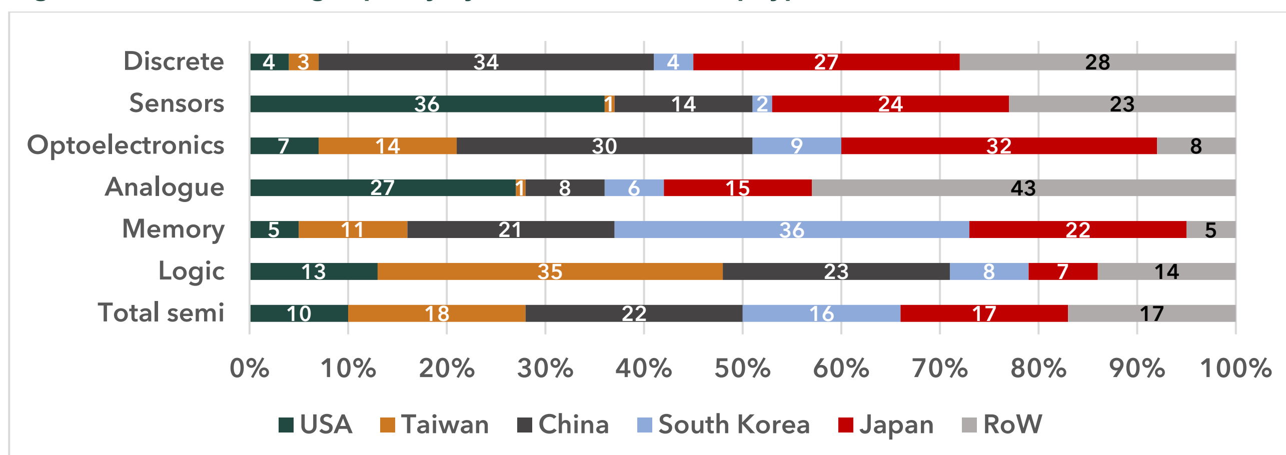
A China-Taiwan conflict would take an enormous toll on the global economy and markets for the following three reasons: Chips; Dips in global trade; later order impacts that could result in some Doughnuts.

Chips

Chips, semiconductors (semis), and integrated circuits (ICs) are one and the same. They are the stamp sized electronic components that sit inside all electronic hardware, including computers, mobile phones, automobiles, home appliances, and airplanes. A disruption in the IC market impacts all electronic hardware, which impacts software, and every other area of modern life.

Taiwan is critical to the IC industry. It is responsible for manufacturing 35% of the world's logic ICs (and a significantly larger portion of leading-edge logic chips), 14% of the world's optoelectronics, and 11% of memory ICs. In addition, 15% of the world's silicon wafer manufacturing capacity is in Taiwan, and 19% of the world's Outsourced Semiconductor Assembly and Test (OSAT) occurs in Taiwan. A disruption in Taiwan would reverberate throughout the global semiconductor industry.

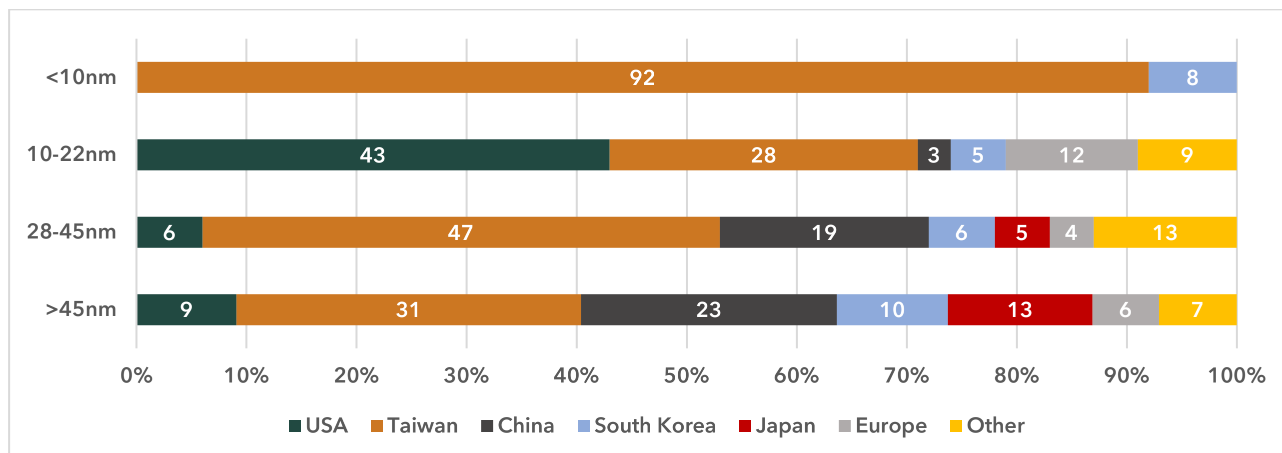
Figure 1 – Manufacturing capacity by fab location and chip type, 2020



Source – SEMI, World Fab Forecast, Nov-20

Taiwan's most critical role in the IC industry is manufacturing logic ICs. Figure 2 illustrates that 92% of the world's most advanced ICs (<10nm) were manufactured in Taiwan in 2019. This means that any disruption to Taiwan would bring the market for the most advanced logic ICs to a stop.

Figure 2 – Global logic process technology by region, 2019 (%)



Source – Semiconductor Industry Association, State of the Industry report 2021

Without 92% of the world's capacity to manufacture <10nm logic ICs, the most advanced IC that Apple would be able to source in scale for the iPhone is the A11, which means the most advanced iPhone that could potentially be manufactured is the iPhone 8. The most advanced architecture NVIDIA could use would be the Turing and Volta, taking its technology back to 2017/2018, potentially eliminating the c$900Bn in additional market cap NVIDIA has enjoyed since the AI boom. Then there are the large tech companies (Alphabet, Amazon) that design their own ICs to optimise the performance of the servers that run their business. Amazon would need to revert to the ICs it released in Nov-18, putting the performance of its servers back five years.

Figure 3 - Apple ICs

Name	IC size	iPhone
A11	10nm	iPhone 8
A12	7nm	iPhone X
A13	7nm	iPhone 11
A14	5nm	iPhone 12
A15	5nm	iPhone 13
A16	5nm	iPhone 14
A17	3nm	iPhone 15

Source - Wikipedia

Figure 4 - NVIDIA IC architecture

Architecture	IC size	Release
Turing	12nm	Sep-18
Volta	12nm	Dec-17
Ampere	7nm	Sep-20
Ada Lovelace	5nm	Sep-22
Hopper	5nm	Sep-22

Source - NVIDIA, Wikipedia

Figure 5 – Amazon ICs

Name	IC size	Release
Graviton	16nm	Nov-18
Graviton 2	7nm	Dec-19
Graviton 3	5nm	May-22

Source - Amazon

A problem with the above discussion is that it assumes companies like Apple, Nvidia, and Amazon could produce the earlier generation ICs. However, with Taiwan accounting for 28% of the global capacity for 10-22nm logic ICs, that market would also face a severe supply squeeze. The iPhone 8 would suddenly become a prized and scarce resource. Meanwhile, almost 50% of the market for 28-45nm logic chips would disappear, which would severely curtail the capacity to manufacture automobiles and consumer electronics, and medical equipment. The production by companies from Tesla to Caterpillar, Boeing, General Electric, and Medtronic would be severely curtailed.

The above impacts would extend beyond hardware and into software and services. Google would have to curtail search functionality, Salesforce.com's cloud-based software would be less efficient, and META's apps (Facebook, Instagram, WhatsApp) would not work as well.

The technological and economic upheaval from the curtailment/destruction of Taiwan's IC industry would

persist until that manufacturing capacity could be rebuilt. Under normal circumstances it takes three to five years, from preconstruction to full production, to build an average fab and four to six years to build a best in class fab. However, this is under a normal operating environment, and it would take longer in an environment where there is a shortage of ICs required for the equipment to build the fabs. Add to the equation the need to build >30 fabs that are currently positioned in Taiwan, and we expect such an undertaking would require more than ten years.

At least ten years of curtailed and restrained (in some advanced applications non-existent) production and services would have a material impact on the earnings of Apple, Nvidia, Tesla, AMD, Google, Amazon, META, Medtronic, Boeing, Toyota, Salesforce.com to name a few. Under such a scenario it is not an exaggeration to expect a global recession bordering on a depression which would impact JP Morgan, Citibank, Wells Fargo and, via contagion, the entire global financial system.

Trade (DIPS)

A China-Taiwan conflict is likely to close the Taiwan Strait for shipping. The Taiwan Strait is the primary route for ships passing from China to the West and from Japan, South Korea to Europe. According to Bloomberg, almost half of the global container fleet and 88% of the world's largest ships by tonnage passed through the waterway this year. Closure of that region would require shipping to use more inefficient routes, raising costs and other difficulties, e.g. sensitivity to typhoons. This would result in a dip in global trade and would be inflationary for the entire world.

Likely later order effects (Doughnuts)

A China-Taiwan conflict would almost certainly be detrimental to countries relying on Chinese consumers. The Chinese account for c30% of the luxury goods market, meaning companies such as LVMH, Hermes, and Kering (owner of Gucci) would likely experience a massive sales drop. Resource companies like BHP, Rio, and Antofagasta generate more than 30% of their revenue from China, which could be eliminated if there was a war. Even casinos would be hurt, with Las Vegas Sands generating c68% of its revenue from China, Wynn Resorts generating 41% and MGM Resorts generating more than 20%.

In such a scenario it is also reasonable to expect severe capital flight from China, and potentially the rest of Asia. This would result in financial crises in those markets, while depressing their currencies. China would likely try to defend its currency by selling reserves and would almost certainly cease buying US Treasuries, which would have a monetary tightening impact on the US, and the world. The cumulative impact of these factors is another reason to expect an economic and financial crisis, which would result in some stocks going bankrupt, and delivering investors a doughnut.

Conclusion

A discussion about the potential impact of a China-Taiwan conflict is important, however it should not be isolated to the impact on TSMC. Such a conflict would place a severe strain on the chips sector, placing a major hole in technology hardware companies' earnings for an extended period. This would flow through to software and services companies, as well as the broader economy. Shipping from Asia to the US and Europe would be more expensive, resulting in a dip in global trade, and creating a source of inflation. Later order impacts would hurt every company relying on China as a consumer and would push up US treasury yields. In such a scenario a global depression is likely, the share market would tank, and some companies' share prices would retreat to doughnut. TSMC would be severely impacted, but so would virtually every other stock. If you are truly concerned about a China-Taiwan conflict, consider the Chips, Dips and Doughnuts, and some exposure to TSMC should not be your most pressing concern.

Portfolio Positioning

In 3Q23 the Pella Global Generations Fund ("Fund") delivered a return of -2.1%, underperforming its benchmark[1] by 1.7%. The benchmark declined 0.4% with the Energy sector making the largest positive contribution and Information Technology (IT) was the worst performing sector. Almost 50% of the Fund's relative underperformance is explained by its absence of exposure to oil companies. These companies fall within Pella's excluded activities list, meaning the Fund will not invest in them.

One of the key economic themes during 3Q23 was increasing long-term interest rates, with the US 10-year Treasury jumping 78bps over the quarter. This was driven by resilient US economic numbers across several measures including employment, 2Q23 GDP, and personal consumption. The increase in the longer-term interest rates reduced the inversion of the US yield curve, which is a positive for banks and explains why Financials was the second strongest performing sector during the quarter.

The flipside of the rising longer-term interest rates is it has a particularly negative impact on growth stocks. It was the reason IT was the worst performing sector, and the Consumer Discretionary sector underperformed. This is a sharp reversal from 2Q23 when IT and Consumer Discretionary were the best performing sectors, as the market was pricing in interest cuts during that quarter.

The above commentary demonstrates the volatility in market thinking. 180-degree changes in market interest rate expectations have an equivalent impact on sectoral performance. The funds that were the best performing in 2Q23 where likely the worse performing in 3Q23, and vice-versa. This performance volatility is precisely what Pella seeks to avoid.

As always, Pella's primary strategy is to create a diversified portfolio of companies that satisfy our valuation-to-growth and sustainability requirements.

Reflecting on our strategy, Pella initiated positions in CME Group and ResMed, whose valuation-to-growth metrics shifted to satisfy our requirements during the quarter. Partly to ensure sufficient diversification, the new position in ResMed, which is in the Health Care sector, was accompanied with a cut in the weights of IQVIA and Intuitive Surgical, which are also in the Health Care sector. In addition, the Fund exited Texas Instruments.

The biggest change to the Fund's sector exposure was increasing the weight of Financials by 3%. The combined weight of Communication Services and IT (two similar sectors) was relatively unchanged (20%), as was the weight of Health Care (25%). The Fund held 12% in cash at quarter end, which is broadly aligned with the Fund's historical average.

Pella's portfolio structure will always be a diversified combination of companies that satisfy our valuation-to-growth and sustainability requirements, rather than being dictated by any top-down country or sectoral bias. We believe this is the best way to achieve consistency in delivering on our three goals of better returns, lower volatility, and superior sustainability to the benchmark.

Portfolio Segments

Core:

The Fund Increased its exposure to the Core segment from approximately 65% at the end of 2Q23 to 71% at the end of 3Q23. This reflects the new positions in CME Group and ResMed, combined with increasing exposure to Alphabet and Microsoft. These changes were partly offset by exiting Texas Instruments and reducing exposure to IQVIA and Intuitive Surgical.

Cyclical:

The Fund's exposure to the Cyclical segment remained relatively unchanged, increasing from 13% (2Q23) to 14% (3Q23). The only notable portfolio change to the Cyclical segment was the decision to exit Ping An, which was a small position in the Fund prior to its exit.

Innovation:

Exposure to Innovation was nudged down 2% to 4%, following the exit of Adyen, which hit its stop loss level.

[1] *MSCI ACWI ($A, net)*

Stock in Focus

Ryan Fisher
Investment Analyst

HDFC BANK: WHEN COUNTRY, COMPANY & VALUATION (FINALLY) LINE UP

Positive demographics and policy make India the most attractive EM

In selecting an Emerging Market (EM), Pella seeks a combination of strong demographic dynamics, clear rule of law, relatively low political risk, and positive economic fundamentals.

India meets these criteria and, since beginning its transformation from closed to open economy in the 1990s, has achieved one of the world's highest economic growth rates.

Despite this, some would argue that India has under-delivered on its potential. To be fair, the same (or worse) could be said about most of the EM universe.

However, unlike most other EMs (and in stark contrast to China), we have observed several significant developments in India over the past decade that should position it in even more favourably going forward. These developments include:

- Adoption of a flexible inflation targeting regime in 2016.
- Increased formalisation and digitalisation of the economy, along with the adoption of a more attractive corporate tax regime (particularly for new manufacturing operations, under the government's broader "Made-In-India" initiatives).
- A major focus on Foreign Direct Investments, which has led to a surge in the level of active vs passive foreign investment in the country.
- Accelerated growth in the retail mutual fund market driven by the proliferation of Systematic Investment Plans or SIPs, which has boosted local asset markets.

In more recent times, there has been a massive ramp-up in the government's infrastructure investment plans as part of Prime Minister Narendra Modi's vision to transform India into a 'Developed Nation' by 2047.

Meanwhile, India's long-term growth drivers remain very much intact:

- Population growth is forecast by the UN to continue until 2064.
- The UN expects India's urban population to increase by 125-130mn between 2021 to 2036 (around the size of France and the UK combined).
- While China and most developed countries are dealing with a rapidly ageing population, India will not face that headwind for decades: people under 25 currently account for >40% of the population; there are so many people in this age group that roughly one-in-five people globally who are under the age of 25 live in India; and the country's median age is 28 (vs 38 in the US and 39 in China).
- India's GDP per capita in 2022 was only US$2.4k, compared with China US$12.8k, Brazil US$9.0k and Indonesia $5.0k.

The net benefit can be seen in the strength of consensus economic forecasts. India's real GDP growth is expected to run at just over 6% in coming years. This compares with 4.5% for China, c2% for LatAm and Emerging EMEA, and 1-2% for the US and Europe.

The big challenge with EMs: finding quality and relative safety… at the right price

Identifying the right EM to invest in is clearly a critical first step. The next big challenge is to find a stock that satisfies Pella's standard investment criteria (a positive price-for-growth equation, along with strong quality and sustainability characteristics) and meets Pella's additional risk management criteria for EM stocks, in areas such as liquidity, transparency, and corporate governance.

Pella's liquidity requirements for EM stocks are deliberately conservative because liquidity can be an investor's worst enemy in times of macro upheaval and the risks tend to be magnified in the case of EMs. This hurdle alone tends to narrow the field significantly, particularly in markets outside of the big 3 EMs (China, India and Brazil). Our transparency, and governance requirements thin the herd even further.

Once we identify a market as being attractive, this allows us to focus on the highest-quality, lowest-risk opportunities within that market. One often-frustrating result of this process is that many of those stocks tend to be well-owned "foreign investor favourites", so they very often trade at a valuation premium to their broader market. This means we regularly have to watch and wait for an opportunity to invest in the stock. This is exactly what happened in the case of HDFC Bank.

HDFC Bank had been one of the highest quality names on our watchlist for many years

Pella sees little appeal in most developed market (DM) banks, beyond leveraged plays on the broader economic cycle, for two reasons: (1) in a world of disintermediation and disruption, DM banks have little structural growth potential without taking outsized risk; (2) capital requirements tend to be notched up post every banking crisis, limiting DM banks' ability to generate sufficient through-cycle returns to compensate for the intra-cycle volatility of those returns.

We see a lot more potential for through-cycle value-add and genuine compounding in EM banks. However, the potential downside in the bad times can be equally outsized. Everything hinges on franchise strength.

The things we look for include: benefits of incumbency or scale; solid deposit franchise; balance sheet strength and provisioning adequacy; stable net interest margins (NIM); high and relatively stable through-cycle return on equity (ROE). HDFC Bank has always satisfied our "franchise strength" assessment criteria.

To begin with, it has an enormous footprint:

- HDFC Bank is the largest private sector bank in India, with a market share of 10% in deposits, 11% in loans, 28% in credit card spend and 44% in merchant acquiring (payments).
- It has 83m customers spread across more than 7,800 bank branches and 23,000 banking outlets.
- More than 60% of those customers are in the 40-or-younger age bracket, and 52% of those branches are in semi-urban and rural areas.
- It added 1,500 new branches in FY23 and plans a similar pace of openings in coming years.

Despite the massive size and rapid growth of the franchise, it has been able to maintain industry-leading productivity and efficiency metrics. This has enabled the bank to deliver healthy financial returns through all stages of the cycle.

- Loan growth: while loan growth across Indian banks has been 10% pa over the past decade, HDFC Bank has consistently gained share and has grown its loan book at around 20% pa. This has been matched with similarly strong growth in deposits.
- Remarkably stable net interest margin: 10-year average of 4.3%, with a range of 4.1-4.5%.
- Relatively modest loan losses, even during periods of economic crisis: new loss provisions have averaged only 0.9% of total loans over the past 10 years (peaking at 1.5% post-COVID) and 1.1% over the past 20 years (peaking at 2.0% post the GFC).
- Resulting in a high and relatively stable through-cycle ROE: 10-year and 20-year average of 18%, with a low of roughly 16% (post-GFC and post-COVID) and a high of 21%.

All of which has made HDFC Bank a classic "compounder", with earnings per share and book value per share both expanding at roughly 20% pa over the past decade.

Ironically, these strengths are what (until recently) precluded us from owning the stock. The quality of the franchise and the relative stability of its returns were so clear and compelling that investors were willing to pay an even higher premium for the stock than what we could justify.

The stock de-rated significantly in 2021-23, bringing it back into our valuation frame

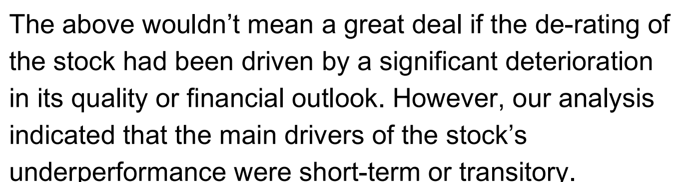
In the 15 years leading up to mid-2021, HDFC Bank's share price increased at a 21% CAGR, outperforming the Indian market by 9% pa. During that period, the stock only underperformed the broader India market in 3 individual years and also only underperformed the India banks sector in 3 individual years.

However, things changed significantly in the 2-year period from mid-2021 to mid-2023:

- The stock price fell by 4%, underperforming the broader India market by 14% and its bank peers by 23%, even though it had continued to grow its book value per share (by a cumulative 35%) and earnings per share (by a cumulative 40%) over that period.
- Resulting in a c30% de-rating of the stock's valuation multiples over that 2-year stretch, despite little change in its forecast ROE and earnings growth rate (vs the historical period).

This improvement in the price-for-growth equation meant the stock finally satisfied our risk-adjusted valuation requirements.

Importantly, the drivers of the de-rating were primarily short-term/transitory in nature



The above wouldn't mean a great deal if the de-rating of the stock had been driven by a significant deterioration in its quality or financial outlook. However, our analysis indicated that the main drivers of the stock's underperformance were short-term or transitory.

- The period of underperformance began in late 2020 when Aditya Puri, CEO of the bank since its inception in the mid-90s, retired. He handed over to Sashidhar Jagdishan, who had been with the bank for almost 30 years and was a close aide to Mr Puri. Even though the transition had been well-planned and was well-flagged, Mr Puri had such an impeccable track record that his departure weighed on the stock.
- Its stock price performance continued to lag peers when the Reserve Bank of India starting increasing interest rates, because HDFC Bank has lower earnings leverage to rising interest rates than many other banks. Its lower sensitivity to interest rates should stand the bank in relatively good stead in coming years, as rate hikes come to an end and the RBI likely shifts into easing mode.
- The pressure on the stock was compounded in May 2022 when the bank entered into a merger agreement with its parent company, HDFC Limited. The size and complexity of the proposed merger led to some specific concerns (e.g. would the growth in both businesses stall until the merger was completed?). It also led to a great deal of investor uncertainty, ranging from index inclusion considerations to the likely impact of regulatory rulings and accounting restatements.

Since then, many of the initial investor concerns have been addressed and much of the uncertainty has subsided, with the key index and regulatory decisions generally falling in a neutral-to-favourable direction for the merged entity, but the merger accounting ramifications skewing in a negative direction.

There have been two developments in the business that have had a genuinely negative impact on its financial performance:

(1) In preparation for the merger, HDFC Bank began investing heavily in branch expansion, which has been a drag on earnings. However, this will end up being a positive, since it is already turbo-charging the merged group's deposit gathering efforts and will ultimately drive stronger loan growth.
(2) In the wake of the US regional/Credit Suisse banking "crisis" in early 2023, HDFC Bank raised its liquidity levels by a larger amount than analysts had expected. This will be a drag on the merged entity's margins in coming periods. However, management has indicated that the excess liquidity will be utilized over 3-4 quarters, resulting in a progressive recovery in the margin.

Pella sees the longer-term positives from the merger as more than offsetting the risks:

- HDFC Bank will expand its customer base as it absorbs the businesses that were previously housed within its parent company, HDFC Limited. The most significant of these are the group's mortgage lending business (5mn customers), 50% stake in separately listed HDFC Life Insurance (6mn customers), 50% stake in HDFC Asset Management (7mn customers), and 50% stake in HDFC ERGO General Insurance (15mn customers). At the time of the merger, around two-thirds of these customers did not have any accounts with HDFC Bank.
- The integration of HDFC Limited's mortgage business offers the greatest potential synergies. Mortgages are a long-dated "anchor" product, so customers tend to be sticky and receptive to cross sell. Prior to the merger, the majority of HDFC Limited's mortgage customers did not have any other products with HDFC Bank and only around 2% of the bank's pre-merger customer had a mortgage with HDFC Limited.
- Going forward, the bank's aim is to boost the level of cross-sell significantly by transitioning from a product and distribution focus to a bundling and relationship management approach.
- It also sees cost synergies and is aiming for a cost-to-income ratio of around 30% in a decade's time (vs 40% currently). This will be supported by the natural operating leverage provided by high-teens growth and the fact that the bank has been up-fronting branch and tech investments into FY23/24 to take advantage of benign credit conditions.
- The bank will reduce HDFC Limited's cost of funding as it replaces some of its more expensive wholesale funding with cheaper deposit funding.

Conclusion: A good opportunity to buy a proven compounder at the right price

While the stock had previously been overvalued vs Pella's price-for-growth requirements, we view its de-rating over the past couple of years as excessive, because (1) most of the factors that have been dragging on the stock's performance are likely to be transitory in nature and (2) we remain confident in the quality, positioning and long-term growth prospects of the business.

Therefore, after a very long stretch on the sideline, we have finally been able to invest in HDFC Bank, an exceptional franchise and proven compounder in a market with attractive long-term dynamics.

Responsible Investing

Pella believes the corporate behaviour of a fund manager is as important as the sustainability outcomes of its investments. During the last quarter Pella undertook several initiatives that demonstrate our commitment to sustainability.

During 3Q23, Pella completed the analysis of its carbon footprint with support from Pangolin Associates. Based on that analysis Pella acquired carbon credits in the Rimba Raya biodiversity reserves, located in Borneo. Rimba Raya is one of the world's largest initiatives to protect and preserve tropical lowland peat swamp forests, which have high carbon storing capacity. This initiative is aligned with our requirement for the Pella Global Generation Fund's carbon intensity (measured relative to enterprise value and revenue) to be less than 30% of its benchmark, and in practice the Fund's carbon intensity is approximately 70% lower than the benchmark.

Aligned with our commitment to investor stewardship, during the quarter Pella wrote a letter to the U.S. Securities and Exchange Commission (SEC) requesting that organization to develop rules to require public companies operating in the retail sector that are involved in selling tobacco products to disclose their revenue from the sale of those products. Concurrently, Pella initiated an online petition seeking support for the initiation. If you haven't signed the petition yet, we would be greatly appreciative if you do now. Please follow this link – Pella's Tobacco Petition.

The only shareholder meeting for Pella to participate in during the quarter was Ashtead's AGM. Pella voted in line with management recommendations on all ballots in that meeting. The meeting had no significant sustainability petitions to vote, or report, on.

Aligned with our Pledge 1% commitment, during the quarter Pella employees volunteered at the One&All hub. One&All provides a holistic hub for people with all abilities. The Pella team led activities and helped with some handy work around the hub. It was a hugely rewarding experience and we look forward to an ongoing relationship with One&All. We also highly recommend other companies contact One&All to see how you can get involved.

Recognising the need for regular sustainability updates, Pella commenced releasing a Monthly Sustainability Report. These reports provide a succinct and quantifiable summary of the Fund's key sustainability measures. We believe the positive impact table is particularly useful. One of the key issues with positive impact reporting is that some companies are classified as positive impact due to a portion of its revenue being derived from positive impact activities, while other elements of its business do not have a positive impact. For example, we regularly observe businesses involved in air conditioning (e.g., Daikin, Trane, Carrier, Johnson Controls) presented as positive impact companies because they sell heat pumps. However, in most instances heat pumps comprise less than 20% of those companies' revenues, which we believe legitimately puts into question whether those companies are truly positive impact companies. Our solution is to report our calculation of the bands of positive impact revenue generated by the Fund's positions.

Pella also ensured that the Fund complied with all its Responsible Investment guidelines. More than 30% of the Fund is invested in companies rated AAA by MSCI and 100% of the Fund is invested in companies with a rating equal to or higher than a BBB rating. In addition, the Fund's carbon intensity is significantly lower than its target, 30% below the benchmark, and the Fund did not invest in any companies involved in activities on our exclusion list. Finally, we calculate that as at the end of quarter, 41% of the Fund was invested in companies that generate at least 20% of their revenue from positive impact activities.

Our commitment to the United Nations Principles for Responsible Investment (UNPRI) was demonstrated by Pella completing the UNPRI's reporting requirements one year ahead of requirements. We will share the results of that report when it is released in November 2023.

Reflecting Pella's commitment to Responsible Investing, during the quarter the Responsible Investment Association Australasia (RIAA) recognised Pella as a Responsible Investment Leader. This places Pella in the top 20% of all fund managers in RIAA's research universe.

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Pella Global Generations Fund

Performance

Net of all fees	PGGF Class B	MSCI ACWI (AUD, net)	Relative
1 month	-3.8%	-3.8%	0.0%
3 months	-2.1%	-0.4%	-1.7%
6 months	3.5%	6.4%	-3.0%
1 Year	24.8%	20.3%	4.5%
Inception to date (1)	1.6%	0.7%	0.9%

(1) Per annum return since inception on 1 January 2022

Past performance is not indicative of future performance. Performance returns are net of fees and assume reinvestment of distributions. Actual investor performance may differ due to the investment date, date of reinvestment of income distributions, and withholding tax applied to income distributions.

Fund Holdings

As of 31 August 2023

Holdings Name	Sector	Country
3i Group	Financials	United Kingdom
Adobe	Information Technology	United States
Adyen	Information Technology	Netherlands
AIA Group	Financials	China
Albemarle Corp.	Materials	United States
Alphabet	Communication Services	United States
Antofagasta	Materials	Chile
Ashtead Group	Industrials	United Kingdom
ASML	Information Technology	Netherlands
Bayerische Motoren Werke	Consumer Discretionary	Germany
Boliden	Materials	Sweden
Cigna Corp.	Health Care	United States
CME Group	Financials	United States
Coloplast A/S	Health Care	Denmark
Deutsche Börse	Financials	Germany
Enphase Energy	Information Technology	United States
Halozyme Therapeutics	Health Care	United States
HDFC Bank	Financials	India
Intuit	Information Technology	United States
Intuitive Surgical	Health Care	United States
IQVIA	Health Care	United States
JD Sports Fashion	Consumer Discretionary	United Kingdom
Marsh & McLennan	Financials	United States
Mosaic	Materials	United States
Novo Nordisk	Health Care	Denmark
Nutrien Ltd.	Materials	Canada
ResMed, Inc.	Health Care	United States
Schneider Electric	Industrials	France
Texas Instruments	Information Technology	United States
Thermo Fisher Scientific	Health Care	United States
TSMC	Information Technology	Taiwan
UnitedHealth Group	Health Care	United States
VINCI	Industrials	France

Fund Analytics

As of 30 September 2023

Geographic & Asset Allocation

Asset Class	Fund	Benchmark
Developed Markets	**78%**	**89%**
United States	44%	63%
Europe	31%	16%
Japan	0%	6%
Others	2%	5%
Emerging Markets	**10%**	**11%**
Emerging Asia	9%	9%
Latin America	0%	1%
Others	1%	1%
Cash	**12%**	**0%**

Source – Pella Funds Management

Top Ten Holdings

Company	Sector	Country
3i Group	Financials	UK
Alphabet	Communication Services	USA
CME Group	Financials	USA
HDFC Bank	Financials	India
JD Sports Fashion	Consumer Discretionary	UK
Marsh & McLennan	Financials	USA
Microsoft	Information Technology	USA
Novo Nordisk	Health Care	Denmark
Thermo Fisher Sci.	Health Care	USA
UnitedHealth Group	Health Care	USA

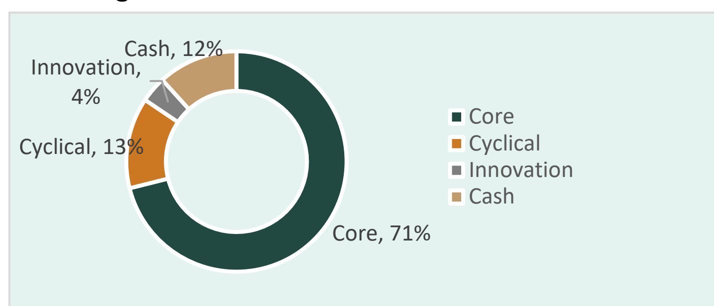
Source – Pella Funds Management

Currency Exposure

Currency	Direct	Exposure
USD	52%	52%
AUD	13%	13%
EUR	12%	12%
GBP	11%	11%
Others	7%	7%
HKD	3%	3%
SEK	2%	2%

Source – Pella Funds Management

Fund Segment Allocation



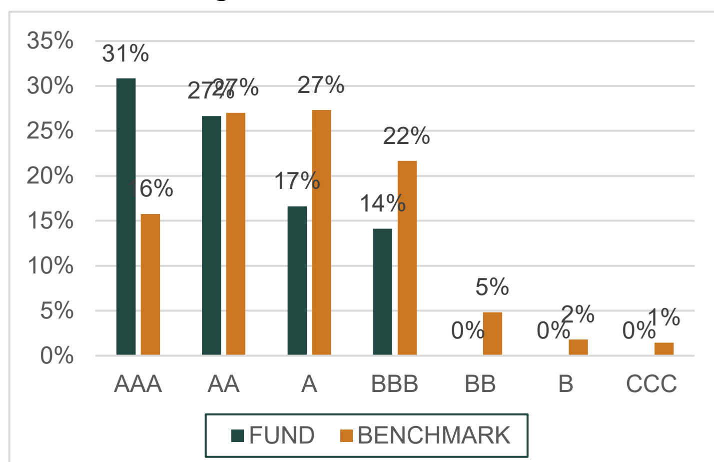
Source – Pella Funds Management

Sector (GICS) Allocation

Sector	Fund	Benchmark
Health Care	25%	12%
Financials	21%	16%
Information Technology	16%	21%
Materials	9%	4%
Industrials	7%	10%
Consumer Discretionary	6%	11%
Communication Services	4%	8%
Utilities	0%	3%
Consumer Staples	0%	7%
Real Estate	0%	2%
Energy	0%	5%
Cash	12%	0%

Source – Pella Funds Management

MSCI ESG Rating Distribution



Source – Pella, using MSCI ESG data

Key Information

Portfolio Manager	Jordan Cvetanovski
Inception date	1-January-2022
Price Class B (NAV)	$1.22 (30 Sep 2023)
Buy/Sell spread	+0.25% /-0.25%
Minimum	$25,000
Additional Investment	$1,000/ $1,000 per month on a regular savings plan.
Pricing frequency	Daily
Distribution frequency	Annual
Base fee	0.65%
Performance fee	15% above benchmark
Benchmark	MSCI All Country World Index ("MSCI ACWI") (A$, net) *
APIR code	PIM5678AU
ISIN	AU60PIM56781
Platform Availability	Macquarie Wrap Netwealth HUB24 North/MyNorth Direct Online Application

* The fund's investable universe differs to its benchmark. The fund's negative screen excludes several activities that are included in the benchmark such as fossil fuel mining, transportation, or electricity generation; weapons; alcohol; and casinos. The fund also excludes companies that are rated CCC by MSCI. In addition, the fund can invest in companies that are not included in the benchmark, provided those companies satisfy the fund's liquidity requirements. Thus, the fund may be of a different return and risk profile then the benchmark.

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