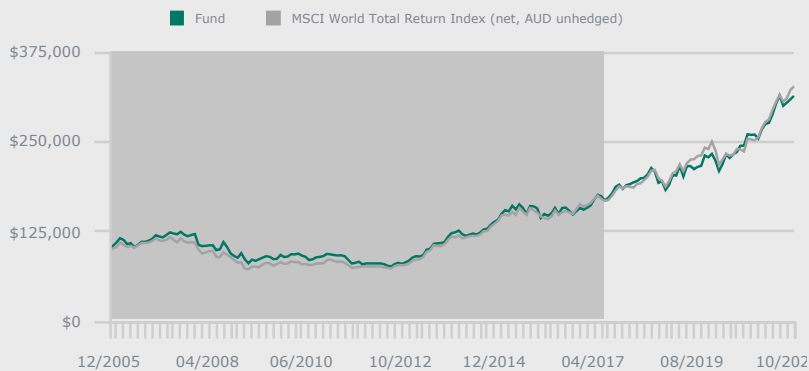


PENGANA WHEB SUSTAINABLE IMPACT FUND
DESCRIPTION

The Pengana WHEB Sustainable Impact Fund invests in companies with activities providing solutions to sustainability challenges. WHEB have identified critical environmental and social challenges facing the global population over coming decades including a growing and ageing population, increasing resource scarcity, urbanisation and globalisation. The Fund invests in companies providing solutions to these sustainability challenges via nine sustainable investment themes – five of these are environmental (cleaner energy, environmental services, resource efficiency, sustainable transport and water management) and four are social (education, health, safety and well-being). WHEB's mission is 'to advance sustainability and create prosperity through positive impact investments.'

PERFORMANCE TABLE
NET PERFORMANCE FOR PERIODS ENDING 31 Dec 2021¹

	1 MTH	1 YEAR	3 YEARS P.A.	5 YEARS P.A.	SINCE INCEPTION P.A.
WHEB Sustainable Impact Fund	1.5%	20.9%	19.7%		
Strategy (partial simulation – see below)				14.8%	7.4%
MSCI World Total Return Index (net, AUD unhedged)	1.7%	29.3%	20.4%	14.9%	7.7%

PERFORMANCE CHART
NET PERFORMANCE SINCE INCEPTION²

TOP HOLDINGS (ALPHABETICALLY)

A.O. Smith	Industrials
Advanced Drainage Systems Inc	Industrials
Danaher	Health Care
Ecolab	Materials
Icon	Health Care
Intertek Group	Industrials
Koninklijke DSM	Materials
Linde	Materials
Orpea	Health Care
TE Connectivity	Information Technology

SECTOR BREAKDOWN

Consumer Discretionary	5.2%
Consumer Staples	2.7%
Health Care	30.3%
Industrials	28.7%
Information Technology	20.8%
Materials	10.9%
Cash	1.3%

CAPITALISATION BREAKDOWN

1-2bn	1.4%
2-10bn	22.1%
10-20bn	21.7%
>20bn	53.4%
Cash	1.3%

CUSTOM SECTOR BREAKDOWN

Health	21.6%
Resource Efficiency	23.1%
Sustainable Transport	11.1%
Environmental Services	11%
Water Management	7.9%
Safety	5.2%
Cleaner Energy	4.3%
Wellbeing	11.5%
Education	3%
Cash	1.3%

REGION BREAKDOWN

North America	54.9%
Europe ex-UK	23%
Japan	9.2%
UK	6%
Emerging Markets - Europe, Middle East & Africa	1.5%
Asia Pacific	4.1%
Cash	1.3%

STATISTICAL DATA
VOLATILITY³ 13%

NUMBER OF STOCKS 44

WHEB'S APPROACH TO BIODIVERSITY

COMMENTARY

Stock markets rebounded strongly in December after a weaker month in November. Despite the rapid spread of the COVID variant Omicron, global equity markets were unfazed by the resulting negative economic impact. The Fund returned 1.54% versus our benchmark MSCI World Index which returned 1.69%.

Despite climate change becoming an all-encompassing threat and overshadowing most other environmental concerns, the Fund also implicitly targets the conservation and recovery of biodiversity. With society's current rate of consumption overusing Earth's biological resources by at least 56%, this month's commentary discusses WHEB's approach to biodiversity.

In other news, we are delighted to announce that WHEB has won "[European ESG Manager of the Year](#)" in the Funds Europe Awards 2021.

The US stock market index S&P 500 hit a new record high in the last week of the month. Investors showed optimism over corporate earnings growth in 2022 and the possible easing of supply chain constraints.

The outperformance of Sustainable Transport and Environmental Services partly offset the lower returns of our Cleaner Energy and Wellbeing themes.

Sustainable Transport was the best performing theme in December. **JB Hunt** was one of the major contributors. Its main service is providing 'intermodal' services, where truckloads are carried by rail over long distances before being transferred back to the road for final delivery. This helps reduce road transportation resulting in meaningful emission savings. Over short periods, JB Hunt's share price can be influenced by the price of oil, as higher oil prices increase the incentive to move freight off the road. Oil prices rose strongly in December.

Another strong contributor to the Sustainable Transport theme was **TE Connectivity**. Its products are used to improve car safety and fuel efficiency. It also sells products into industrial and telecommunications markets to help improve energy efficiency and safety. There were signs of easing supply shortages in some of TE Connectivity's key markets, which would support stronger growth for the stock.

The weakest performance this month came from the Cleaner Energy theme. This was mainly driven by our two solar energy holdings, **First Solar** and **SolarEdge Technologies**. Both companies suffered from the collapse of the proposed "Build Back Better" bill in the US, which had earmarked billions of dollars for renewable energy investments. Despite this short-term setback, we believe that clean energy provisions could still be salvaged through other legislative vehicles.

Our Wellbeing theme also performed poorly in December. This was mainly due to the weak performance of **HelloFresh**, a leading supplier of fresh food meal kits to consumers. The company re-iterated its €10 billion mid-term revenue target at its Capital Markets Day and highlighted its significant growth runway. However, the growth investments will put negative pressure on its margins in the near term, which was taken badly by the market. We believe these investments will position the company well over the long term to capture a growing market share in its fast-growing and immature markets.

Stock markets ended 2021 with one of the best performances in recent years. COVID vaccination was clearly the biggest driver. Fiscal stimulus was also one of the biggest tailwinds. Strong earnings growth, rather than earnings multiple expansion, was another key driver. It is no surprise that investors are looking for signs of a reversal. Markets

are closely monitoring the mounting inflation pressures and any global central bank policy shifts. Despite all these uncertainties, what remains clear are the growing commitments from governments and corporates on combating climate change. In 2022, our strategy will continue to engage with companies and policymakers to translate these commitments into action.

WHEB's approach to biodiversity

Climate change has become such an all-encompassing threat, that most other environmental concerns have been left in its shadow. The decline in biodiversity is one such issue that rarely receives the attention that it deserves.

Biodiversity is of course fundamental to human life on earth and is being destroyed at an unprecedented rate. Until 1970, humanity's impact upon biodiversity was smaller than the Earth's rate of regeneration. As [WWF's latest Living Planet Report](#) makes clear, society's current rate of consumption means that Earth's biological resources are being overused by at least 56%. WWF's findings are supported by numerous other publications including the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystems Services (IPBES).

The financial sector and biodiversity

In recent years though, more effort has been made to engage the financial sector in supporting biodiversity conservation. For example, the '[Economics of Biodiversity: Dasgupta Review](#)' was commissioned by the UK Government and published in early 2021. The report calls on governments, along with financial institutions, to develop global standards underpinned by credible data to integrate nature-related considerations into decision-making and financial disclosures. This work is being taken forward by the [Taskforce on Nature-related Financial Disclosures](#).

Regulators have also sought to embed biodiversity considerations into financial decisions. The most prominent of these is perhaps the European Union which is integrating biodiversity impact into both the 'do no significant harm' provision of the Taxonomy on Climate Change as well as into the Sustainable Finance Disclosure Regulations (SFDR).

Products and services for biodiversity conservation and restoration

While the conservation and recovery of biodiversity is not an explicit theme in WHEB's investment strategy, it is nonetheless an implicit objective across the strategy. The Environmental Services theme touches most directly on biodiversity through, for example:

- a focus on sustainable materials, including low impact materials, with strong environmental credentials including lower impacts on biodiversity; and,
- in environmental consulting which includes services that are explicitly aimed at reducing negative impacts and promoting positive impacts on biodiversity.

There are also multiple links across other themes including Well-Being and Resource Efficiency (links with food production and agriculture), Water Management (wastewater treatment), and technology businesses that provide products and services. This includes everything from [Autodesk products that help scientists to restore coral reefs](#) to [Infineon technology that is used to monitor wildfires in vulnerable forests](#).

Impacts on biodiversity from company operations

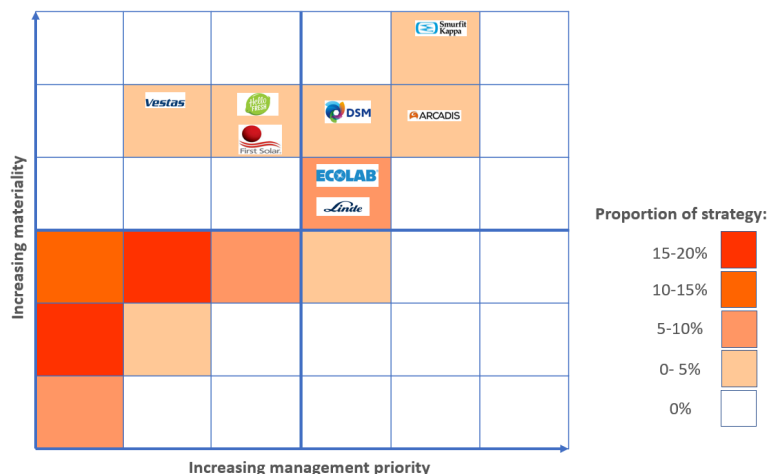
When assessing whether to invest in a business, we also consider how a company impacts biodiversity through its own operations. We use the Sustainability Accounting Standards Board (SASB) Materiality Map to guide this analysis, focusing in particular on those businesses where this is a material issue. The most significant negative

biodiversity impacts are clustered in the extractives and minerals processing sector where the WHEB strategy has no exposure. Other sectors which also have impacts include food and beverages, infrastructure, renewable energy, and transportation.

The current status of WHEB's portfolio

[WHEB conducted a review of the strategy's exposure to biodiversity impacts](#) as part of our work for the independent Investment Advisory Committee. The figure below shows the conclusions of this review which assessed each portfolio company both in terms of the materiality of the issue of biodiversity loss and the level of management priority given to the issue.

Mapping biodiversity materiality and management of WHEB's investment portfolio



Conclusions and next steps

Based on our analysis, for nearly 80% of the strategy, biodiversity loss is not considered to be a material issue. These businesses, which include a wide variety of companies active in technology, healthcare, services, and manufacturing, do not currently prioritise biodiversity impacts in their strategies. In the main, we consider this to be largely appropriate. However, given expected changes in regulations and in our understanding of biodiversity loss, we will continue to monitor this group for evidence that biodiversity impact is becoming a material concern.

A small group of companies, representing approximately 20% of the strategy, operate in sectors for which biodiversity loss is a significant issue or where there are significant indirect impacts through the value chain. Although none of these companies are considered to have a complete management response, those in the top right quadrant of the above figure, are considered to provide a reasonably sophisticated company response. We will actively monitor how this group continues to manage the issue. For some of them, including specifically Smurfit Kappa and Arcadis, there is an opportunity for them to deliver biodiversity enhancements through their core operations and services rather than just minimising negative impacts.

For the final group in the top-left quadrant, we believe that biodiversity impact is a significant issue associated with their product/service or operations. Based on our initial analysis, we do not believe that biodiversity impacts are adequately managed by these companies. We plan to engage further with them to encourage them to give the issue a higher priority and offer a more comprehensive response. We will report on this engagement work as part of our regular reporting in the future.

FEATURES

APIR CODE	HHA0007AU
REDEMPTION PRICE	A\$ 1.7253
FEES *	Management Fee: 1.35%
MINIMUM INITIAL INVESTMENT	\$10,000
FUM AT MONTH END	A\$ 286.84m
FUND INCEPTION DATE	31 October 2007

FUND MANAGERS



Ted Franks
Partner, Fund Manager



Seb Beloe
Partner, Head of Research

1. From August 2017, performance figures are those of the Pengana WHEB Sustainable Impact Fund's class A units (net of fees and including reinvestment of distributions). The strategy's AUD performance between January 2006 and July 2017 has been simulated by Pengana from the monthly net GBP returns of the Henderson Industries of the Future Fund (from 1 January 2006 to 31 December 2011) and the FP WHEB Sustainability Fund (from 30 April 2012 to 31 July 2017). This was done by: 1) converting the GBP denominated net returns to AUD using FactSet's month-end FX rates (London 4PM); 2) adding back the relevant fund's monthly ongoing charge figure; then 3) deducting the Pengana WHEB Sustainable Impact Fund's management fee of 1.35% p.a. The WHEB Listed Equity strategy did not operate between 1 January 2012 and 29 April 2012 – during this period returns are zeroed. The Henderson Industries of the Future Fund's and the FP WHEB Sustainability Fund's GBP net track record data is historical. No allowance has been made for buy/sell spreads. Past performance is not a reliable indicator of future performance. The value of the investment can go up or down.
 2. The Fund inception on 31 October 2007 as the Hunter Hall Global Deep Green Trust. The Fund was relaunched on 1 August 2017 as the Pengana WHEB Sustainable Impact Fund employing the WHEB Listed Equity strategy. This strategy was first employed on 1 January 2006 by the Henderson Industries of the Future Fund and currently by the FP WHEB Sustainability Fund.
 3. Annualised standard deviation since inception.
 4. Relative to MSCI World Total Return Index (net, AUD unhedged)
- * For further information regarding fees please see the PDS available on our website.

PENGANA WHEB SUSTAINABLE IMPACT FUND

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