MONTHLY REPORT
JANUARY 2022

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.'

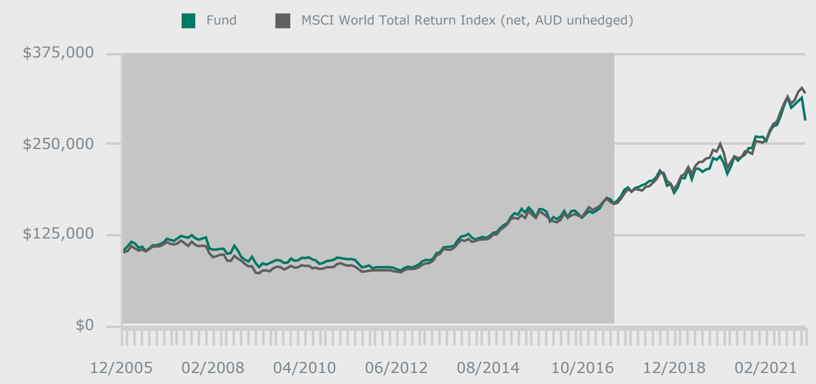
PERFORMANCE TABLE

NET PERFORMANCE FOR PERIODS ENDING 31 Jan 2022[1]

	1 MTH	1 YEAR	3 YEARS P.A.	5 YEARS P.A.	SINCE INCEPTION P.A.
WHEB Sustainable Impact Fund	-10.0%	8.6%	14.1%		
Strategy (partial simulation – see below)				12.7%	6.7%
MSCI World Total Return Index (net, AUD unhedged)	-2.3%	26.9%	17.9%	15.0%	7.5%

PERFORMANCE CHART

NET PERFORMANCE SINCE INCEPTION[2]



TOP HOLDINGS (ALPHABETICALLY)

Autodesk Inc	Information Technology
Danaher	Health Care
HelloFresh SE	Consumer Staples
Icon	Health Care
Infineon Technologies AG	Information Technology
Intertek Group	Industrials
Keyence	Information Technology
Linde	Materials
Sonova Holding AG	Health Care
TE Connectivity	Information Technology

SECTOR BREAKDOWN

Consumer Discretionary	3.8%
Consumer Staples	3.1%
Health Care	29.9%
Industrials	27.1%
Information Technology	23.7%
Materials	10.7%
Cash	1.7%

CAPITALISATION BREAKDOWN

2-10bn	23.6%
10-20bn	23.8%
>20bn	50.8%
Cash	1.7%

CUSTOM SECTOR BREAKDOWN

Health	22%
Resource Efficiency	23.1%
Sustainable Transport	12.1%
Environmental Services	11.1%
Water Management	6.8%
Safety	5.4%
Cleaner Energy	5%
Wellbeing	11.1%
Education	1.7%
Cash	1.7%

REGION BREAKDOWN

North America	53.6%
Europe ex-UK	23%
Japan	9.1%
UK	6.3%
Emerging Markets - Europe, Middle East & Africa	1.5%
Asia Pacific	4.7%
Cash	1.7%

STATISTICAL DATA

VOLATILITY[3] 13.2%

NUMBER OF STOCKS 44

JANUARY STORMS: HEAVY ROTATION IN WEAK MARKETS AT THE START OF 2022

COMMENTARY

The new year has started with significant disruption in markets and significant weakness overall. Global markets have not seen a sustained inflationary or rising interest environment in a long time. Indeed, many market participants will never have experienced one. In the face of this uncertainty, it is important to maintain perspective, discipline, and our focus on positive impact as a source of investment returns over the long term. Associate Fund Manager, Victoria MacLean, provides an overview of how WHEB approaches these volatile markets, how they have affected our strategy, and what it means for sustainable investors.

To learn more about our individual holdings please have a look at our Company Profiles Document, which is updated quarterly. It lists each of our holdings with an overview of our impact analysis. It's a great tool to get a feel for why we own the company and the impact of the portfolio.

During the month, we also published our Quarterly Review for Q4 2021.

Stock markets ended the first month of the new year with heavy losses. Beyond the overall losses, this has also been an extremely volatile period with significant intra-day swings. The main concern stems from inflation. In December it hit 7% in the US, the highest level seen since 1982.

High inflation feeds into expectations about company earnings as they face increasing prices for energy, labour, and materials. It also affects interest rates, and the US Federal Reserve has signalled that it is preparing to raise rates at its next meeting in March. Importantly, the Chairman added that they could continue on a more aggressive path for interest rates through the rest of this year. An inflationary environment with rising interest rates is one that markets haven't had to contend with in a long time. Indeed, many working in the finance industry have yet to experience a prolonged period featuring either of these in their careers.

The low-interest-rate environment and supportive monetary policy have generally favoured high growth businesses, and as with all stock market highs, some stories have been particularly hyped up. The potential reversal of that market backdrop has led to a significant amount of selling of some of those higher growth companies. On the other hand, it has also led many investors to look again at areas that have long been out of favour, but which tend to do well in a rising interest rate environment. This is particularly true for energy and financials. Energy and financials were the only sectors with positive returns during the month.

In the face of uncertainty, it is important to maintain perspective. After long periods of strength, annual returns of 20% or more, it is not uncommon to see corrections of 10% or more. Since 1980 there have been 15 such instances. It's also important to maintain discipline. For WHEB that means focusing on the fundamentals and the long-term.

In periods of market strength, we have to discern between the companies where there is a lot of hype and those with genuine long-term structural drivers. In a sell-off, we must differentiate between those where there has been a fundamental change and those where there is a stock market reaction with no effect on the structural drivers. We continue to believe that the long-term source of investment returns are those secular trends, and importantly that sustainability and positive impact are a key component of that. In particular, we continue to see growing commitments from governments and corporates to combat climate change which we view as a positive long-term driver for the strategy.

As an example, higher energy prices might benefit oil companies in the short term, but they also increase the incentive to shift to alternative renewable energy sources. As a result, we remain positive about companies like First Solar, Vestas and SolarEdge which facilitate that transition. Similarly, inflation affects labour costs. That in turn is likely to make companies think about investing in technology that improves efficiency. This is a key driver for companies like Daifuku and Keyence.

Given the backdrop described above, WHEB's strategy fell by more than our benchmark, the MSCI World Index, over the month. The underperformance by higher growth companies had a direct impact on relative performance. And as a result of its positive impact focus, the portfolio has no exposure to traditional energy or financials stocks, and this was a relative headwind. Most of the portfolio's themes contributed negatively to performance, most notably Resource Efficiency, Health and Wellbeing. Education was a small positive on a relative basis.

Our Resource Efficiency theme was the worst performer over the month. At a stock level, Keyence, Ansys, and Silicon Laboratories were among the weakest holdings. Silicon Laboratories was one of the strongest stocks within the portfolio in 2021 and all had been good performers in the post-Covid recovery, but as with most technology companies, sentiment turned against them this month. We continue to view these as high-quality businesses with long-term structural growth drivers, in particular the focus on efficient technology which results in both cost savings and emissions reductions.

WHEB's Health theme was a further detractor from relative performance during January. This was in part related to a reversal of positive sentiment related to their products helping to tackle COVID, as Omicron fears eased. This was also compounded by the broader market dynamics, which has seen stocks with strong growth characteristics underperform. Danaher, Agilent Technologies, and Icon were all examples of this trend from a stock perspective. As with Resource Efficiency, these are businesses we continue to favour for their long-term prospects.

Well-being was a significant source of weakness. HelloFresh was weak over the period, but the more meaningful negative performance came from Orpea. Towards the end of the month excerpts from a book were published in the French newspaper, Le Monde, making accusations relating to the mistreatment of employees and elderly residents, resulting from understaffing. There were also allegations about the nature of certain political relationships. The company has denied the claims and has announced an independent investigation. At the time of writing, we have organised a meeting with the company to discuss the allegations. We are considering the best course of action in light of what are currently very limited details.

The year has started with significant disruption in markets and large share price moves. This means there is a risk that volatility continues, as well as the trends that favour sectors such as energy at the expense of growth areas such as technology and health. While the nature of this environment could remain a headwind for the portfolio in the short term, we believe the diversified nature of its exposures and the focus on quality fundamentals does provide a level of risk mitigation. Importantly, we remain firmly of the belief that the portfolio is well-positioned to capture the structural growth opportunities within sustainability. We continue to focus on the long-term prospects of the businesses we invest in, and we see the potential for opportunities to add to holdings where we have high conviction or to introduce new names where share prices are particularly weak.

FEATURES

APIR CODE	HHA0007AU
REDEMPTION PRICE	A$ 1.5526
FEES *	Management Fee: 1.35%
MINIMUM INITIAL INVESTMENT	$10,000
FUM AT MONTH END	A$ 264.04m
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 incepted 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.

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