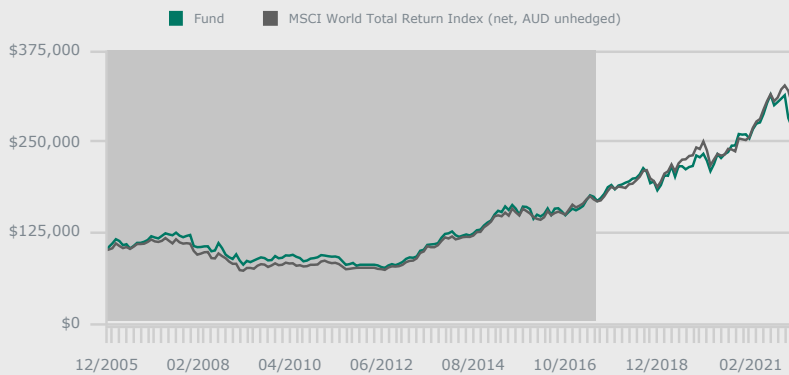


PENGANA WHEB SUSTAINABLE IMPACT FUND
DESCRIPTION

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 28 Feb 2022¹

	1 MTH	1 YEAR	3 YEARS P.A.	5 YEARS P.A.	SINCE INCEPTION P.A.
WHEB Sustainable Impact Fund	-4.4%	6.2%	9.9%		
Strategy (partial simulation – see below)				11.3%	6.3%
MSCI World Total Return Index (net, AUD unhedged)	-5.4%	18.2%	13.7%	13.4%	7.1%

PERFORMANCE CHART
NET PERFORMANCE SINCE INCEPTION²

TOP HOLDINGS (ALPHABETICALLY)

Advanced Drainage Systems Inc	Industrials
Ansys	Information Technology
Danaher	Health Care
HelloFresh SE	Consumer Staples
Icon	Health Care
Intertek Group	Industrials
Keyence	Information Technology
Koninklijke DSM	Materials
Sonova Holding AG	Health Care
TE Connectivity	Information Technology

SECTOR BREAKDOWN

Consumer Discretionary	4.3%
Consumer Staples	2.8%
Health Care	28%
Industrials	26.2%
Information Technology	26.2%
Materials	10.4%
Cash	2%

CAPITALISATION BREAKDOWN

2-10bn	24.6%
10-20bn	20.7%
>20bn	52.7%
Cash	2%

CUSTOM SECTOR BREAKDOWN

Health	22.4%
Resource Efficiency	25.9%
Sustainable Transport	10.6%
Environmental Services	9.1%
Water Management	7.2%
Safety	5.2%
Cleaner Energy	6%
Wellbeing	9.9%
Education	1.7%
Cash	2%

REGION BREAKDOWN

North America	55.1%
Europe ex-UK	21.8%
Japan	9.1%
UK	7.2%
Asia Pacific	4.9%
Cash	2%

RUSSIA'S INVASION OF UKRAINE

COMMENTARY

February saw continued weakness in global equity markets. Rising inflation, an elevated oil price, and the outbreak of war in Ukraine all weighed on markets. Meanwhile, supply chain disruptions and freight shortages persist. The Fund outperformed the MSCI World Index in February, returning -4.4% versus -5.4% respectively.

The humanitarian crisis caused by Russia's invasion of Ukraine is both horrifying and deeply concerning. Events like this throw our role into sharp relief, first and foremost, as citizens, not just investors. [In this month's commentary, we have outlined WHEB's exposure to the war and its economic fallout.](#)

Diversity and inclusion is a critical topic but one which the financial services industry is a laggard in addressing. As a B Corporation and impact manager we are trying to be part of the solution and have been asking ourselves how we can address these issues as individuals, as a company, as an industry, and as a society. [The issue is causing some real soul searching and awkward conversations, as Victoria Maclean discusses below.](#)

Head of Research Seb Beloe and Associate Fund Manager Victoria Maclean give a **market and strategy update** after an extremely volatile start to the year in [this video](#). They discuss interest rates, inflation, performance, valuations and what that all means for long-term sustainability trends.

February saw continued weakness in global equity markets. Rising inflation, an elevated oil price, and the outbreak of war in Ukraine all weighed on markets. Meanwhile, supply chain disruptions and freight shortages persist.

The Fund outperformed the MSCI World Index in February, returning -4.4% versus -5.4% respectively. However, the Fund remains behind the Index so far in 2022, following the significant rotation seen in markets during January. Cleaner Energy companies returned to favour this month, following a period of recent weakness. A significant proportion of the Fund's relative outperformance during February was driven by this theme.

At the market level, Russia is a major exporter of oil and natural gas. Its invasion of Ukraine has serious implications for global energy security. In this context, cleaner energy has become more important than ever. Germany and the EU have both already announced new policies aimed at accelerating the deployment of renewable power generation. The aim is to reduce reliance on volatile neighbours. Meanwhile, rising energy prices may tempt home and business owners to install their own solar systems.

At the company level, **SolarEdge** released quarterly results. These beat expectations on sales growth due to strong market demand. The company is seeing accelerated penetration within commercial scale solar systems. Meanwhile, residential solar demand remains high. The company also expects meaningful sales growth from its new solar battery business.

Vestas Wind Systems has continued to struggle but has fared better than some of its peers. We are optimistic that the demand environment for wind energy may improve from here.

The Wellbeing theme also contributed positively to relative returns. Home health company **LHC** released quarterly results which beat market expectations for sales growth. Hearing device company **Sonova** also performed well, though there was no stock-specific news.

The Resource Efficiency theme was the most significant detractor from relative returns. **Autodesk** was the most

significant detractor in this theme. The company posted results that were in line with expectations but lowered guidance for the full year. This was due to changes in foreign exchange rates, rather than a fundamental issue. The negative performance may be explained by a broader market rotation away from quality growth companies.

Shares in Daikin were also weak. The company reported strong sales growth, however raw material cost inflation impacted margins. Nonetheless, the company is continuing to take market share. We believe Daikin will emerge with a stronger competitive position.

Looking forward, the war between Russia and Ukraine will create considerable uncertainty for the foreseeable future. Oil prices have moved above \$100 for the first time since 2014 and risk climbing higher.

Inflation and rising interest rates will continue to cast a shadow over market sentiment. Current expectations are for a 25bps rate hike at the March Federal Reserve meeting. Further hikes may follow.

Stock market volatility is also increasing. The VIX (the 'fear' index) is on the rise. Volatility remains well below levels seen in 2020, however.

Despite these challenges, we remain optimistic for the long-term prospects for Sustainability companies. The IPCC's February report was a powerful call to arms to accelerate the green transition. WHEB's portfolio of companies are poised to rise to this challenge.

Russia's invasion of Ukraine – implications for WHEB's investment strategy

The humanitarian crisis caused by Russia's invasion of Ukraine is both horrifying and deeply concerning. Events like this throw our role into sharp relief, first and foremost, as citizens, not just investors.

In recent weeks a number of clients have asked us about WHEB's exposure to the war and its economic fallout, so we wanted to clarify our position by publishing an update for all our investors.

No direct exposure to companies listed in Russia, Belarus or Ukraine

The WHEB strategy does not have any direct exposure to companies listed in Russia, Belarus or Ukraine, or to these currencies. We do, however, have companies that sell into those markets and some that may have operations there too. But none of the stocks in the portfolio have anything approaching a material level of revenue exposure. (We define 'material' as greater than 5%.)

We own a few stocks that have low single digit revenues from Russia. Because the percentages are small it usually isn't broken out in company reporting. Rather, it would be reported under a regional category or a catch-all 'Rest of World'. Based on FactSet data at the holding level, we would estimate that aggregate portfolio exposure is less than 1% of total revenues.

Supply-chain disruption more important than direct revenues

It is possible that the impact will be felt more from supply chain disruption than at the revenue level. We have identified several areas where the conflict is likely to have an impact on global supply chains. The first is in agriculture and food supply chains. Belarus and Russia account for just under [40% of global potash production](#). They also make up about [30% of global trade in wheat, 32% in barley and 17% in corn](#). Within the portfolio this is most likely to affect HelloFresh because of the knock-on effect on food prices. The second area is in the automotive supply chain as a result of Russia and Ukraine's role in production of metals, such as aluminium and copper. It's also [affecting operations of automotive OEMs](#) in Russia, including Toyota, Ford, Hyundai and VW. This is weighing on

auto related stocks such as Aptiv. [Russia is also an important supplier of rare earth metals and also of neon gas](#), a noble gas used in the semiconductor manufacturing process. This is likely to put further pressure on an already stretched semiconductor supply chain. The strategy has exposure here through companies like Infineon and Power Integrations.

Knock-on effects from oil and natural gas prices

The effect on oil and natural gas prices will have much broader implications, for companies and the economy as a whole. The price of Brent crude oil hit a 14 year high of \$139 per barrel on 7 March. With the prospect of sanctions on Russian oil, the outlook is for further price increases. Rising energy and food prices contribute to further inflation for the consumer. Prior to the invasion of Ukraine, inflation was already increasing as a consequence of the post-Covid economic recovery. The outlook for growth now is less clear, and sentiment is likely to be more negative. This creates a dilemma for the US Federal Reserve: should it use monetary policy to combat inflation or to try to respond to the dampening effect of the conflict on global growth? Currently, the expectation is that interest rates will still go up despite the economic uncertainty, but potentially to a lesser extent than previously anticipated.

WHEB's strategy is focused on developed markets

Some have asked if we would explicitly exclude investment directly in Russia or Belarus. Our developed market focus means that we have historically been highly unlikely to have an investment listed in either of these markets (or indeed in any other Eastern European countries). Our process generally doesn't rely on exclusions, either at an industry or country level. However, we do set out the ethical outcomes that we think are a natural consequence of our focus on positive impact and our integration of ESG. Taken together, these provide a further buttress to our process. As a consequence, we can say companies with significant exposure to Russia or Belarus would not be qualified for investment in our strategy.

Armaments and positive social impact

Since the conflict started, some within the industry have questioned whether, in the current geopolitical context, armaments could be considered an ESG investment.

While we do not use explicit negative criteria for the strategy as described above, any company with significant involvement in controversial activities, including armaments (as well as tobacco, pornography, gambling, etc.) will not be held because these are not industries that fit the strategy's sustainable investment themes. We consider these products to have a significant negative impact and the investment team only invest in companies where they are clear on the overall positive impact of the business. Companies that have significant activities in these areas are ineligible for investment.

The invasion of Ukraine has shocked the world. It has already catalysed increased defence spending. (For example, Germany has announced a €100bn package and a commitment to spend 2% of GDP on defence.) However, we don't think it should fundamentally change the way we approach the defence sector. Within social sustainability, human rights are the main component that would be relevant to questions of defence. Protecting and promoting human rights would be seen as a positive contribution to social sustainability.

However, drawing a straight line between weapons, defence and human rights protection is an over-simplification, in our view. Looking at past conflicts it would be very difficult to conclude that governments always execute defence in a way that is consistent with social sustainability, even where that might be the intention.

According to the [UN Global Compact](#), social sustainability is about identifying and managing business impacts, both positive and negative, on people. Taking the view that weapons contribute to positive impacts that outweigh negative is a challenging conclusion to reach in our view. Not only does it require analysis of the customer base, it also requires normative judgements of who are the good and bad actors. While most have rightly condemned

Russia's actions, there is still significant debate about the level of military involvement Europe or the US should have in this conflict. The role of Western governments in other conflicts has been equally controversial. Looking at it purely from the perspective of risk of negative harm takes out normative judgments, and we think leads to a conclusion that armaments businesses shouldn't be considered to generate positive impact because there is an inherently high risk of negative human harm.

Reflections, Soul Searching and Awkward Conversations

The last few years have caused so much pause for thought it's often overwhelming. COVID, #metoo, the climate crisis, Black Lives Matter protests, and now war in Ukraine have all laid bare deep and continuing societal inequalities. Many of those that exist today are already well known. Some are less visible. Understanding the causes and finding ways to address them presents a significant challenge. Acknowledging the role we ourselves may play, and our own prejudices, is particularly difficult and confronting. At WHEB, we have been asking ourselves how we can address these issues as individuals, as a company, as an industry and as a society. And it's causing some real soul searching.

Diversity and inclusion is a critical topic and [the financial services industry is a laggard in addressing the issue](#). As a B Corporation and impact manager we are trying to be part of the solution, but we know we are still a "work in progress". We think that means considering our employees as individuals, the investments we make and our role in the industry.

Our employees

In the past two years WHEB has become a company where nearly 70% of the team are women. This shift has brought with it diversity of thought, perspective, and some awkward conversations. One of these conversations arose during our book club with our latest read, "The Authority Gap – Why women are still taken less seriously than men, and what we can do about it."

It wasn't an easy read. For the women, it was over 200 pages of examples reminding us of the challenges we've all faced in our daily lives. For the men, it was eye-opening to hear story after story of their co-workers experiencing this authority gap and general second-class treatment their entire careers.

In some cases, the reaction was surprise that this exists. That surprise shows that one of the things we need to overcome is learning to notice things which don't affect us the way they affect a minority or marginalised group. That can mean ethnicity, race, gender, sexuality, and disability to name just a few.

Our investments

One conversation that followed on from that discussion came when we were asked by an investor about companies in the portfolio that might be furthering gender diversity from an impact perspective. We do own Cooper Companies, which generates approximately 25% of revenue from women's health. While there is clear positive impact behind the products and services Cooper provides, it did prompt a debate about the role of contraception and the potential side effects. For example, why does the burden of contraception fall so heavily on women? And where else might there be inequalities in the health system? More broadly, access to finance for funding female health research is an additional challenge.

When it comes to impact in the listed equities space, our focus is on how a company's products and services contribute to solutions. This can be challenging when it comes to diversity because in the listed space there aren't many opportunities which directly address the issue, outside of women's health.

In general, our industry looks at Gender Equality investing through an ESG lens. In other words, investors tend to explore how a company operates rather than what it sells. We would not consider this to be 'Impact', however it is an important part of what we do. For example, we consistently vote against company proxies where the Board comprises less than one third female representation. We also engage with our investee companies to report detailed diversity data across all levels of its organisation. When this data is disappointing, we ask our companies to disclose what they are doing to improve female and minority representation and ensure equal opportunities.

The industry

The Cooper Companies discussion shows that diverse representation isn't the only challenge, we also need to think about inequalities when it comes to accessing finance. We have seen various movements and initiatives trying to drive momentum in both. These are starting an important dialogue and enabling the industry to reflect and seek solutions.

We are also seeing increasing scrutiny from clients who want to know that their financial services providers are addressing the issue. We need to ensure these questionnaires don't turn into box ticking exercises. We are committed to shifting the narrative away from a compliance mindset towards a meaningful dialogue that drives real cultural change and accountability.

As a start we have reviewed and updated our Diversity & Inclusion Policy. But we also need a better framework in terms of how we can answer these important questions and how as a company we can move forward. As a founding member of [City Hive](#), a think tank and advocacy group, we are planning to also become a founding signatory of their ACT standard of corporate culture. This framework will aim to help us develop a strategic approach to developing an inclusive, diverse, and equitable work environment.

As a small business we are in a good position to build that culture from an early stage. It's much harder to make that shift in a large, established organisation. Scale does have benefits though, for example significant resources that can go into widening the candidate net. But resource isn't an excuse not to do it. At WHEB we are committed to diversity in our growth. We are proud of our efforts so far, but we recognise there is much more we can do.

Having the difficult conversations is a great place to start, and we will continue to back that up with action. That includes internally, with our investments, and with the industry as a whole.

FEATURES

APIR CODE	HHA0007AU
REDEMPTION PRICE	A\$ 1.4847
FEES *	Management Fee: 1.35%
MINIMUM INITIAL INVESTMENT	\$10,000
FUM AT MONTH END	A\$ 270.63m
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

PENGANA CAPITAL LIMITED

ABN 30 103 800 568

AFSL 226566

CLIENT SERVICE

T: +61 2 8524 9900

F: +61 2 8524 9901

E: clientservice@pengana.com



PENGANA.COM

Pengana Capital Limited (Pengana) (ABN 30 103 800 568, AFSL 226566) is the issuer of units in the Pengana WHEB Sustainable Impact Fund (ARSN 121 915 526) (the Fund). A Product Disclosure Statement for the Fund (PDS) is available and can be obtained from our distribution team or website. A person should obtain a copy of the PDS and should consider the PDS carefully before deciding whether to acquire, or to continue to hold, or making any other decision in respect of, the units in the Fund. This report was prepared by Pengana and does not contain any investment recommendation or investment advice. This report has been prepared without taking account of any person's objectives, financial situation or needs. Therefore, before acting on any information contained within this report a person should consider the appropriateness of the information, having regard to their objectives, financial situation and needs. None of Pengana, WHEB Asset Management LLP (WHEB), or their related entities, directors, partners or officers guarantees the performance of, or the repayment of capital, or income invested in the Fund. An investment in the Fund is subject to investment risk including a possible delay in repayment and loss of income and principal invested.