MONTHLY REPORT
APRIL 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.'

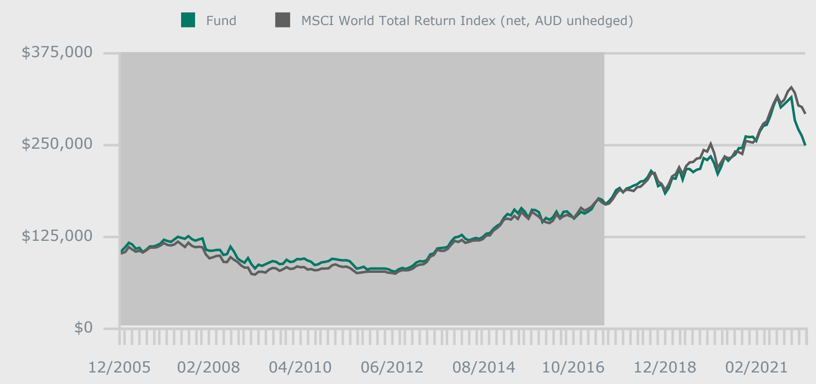
PERFORMANCE TABLE

NET PERFORMANCE FOR PERIODS ENDING 30 Apr 2022[1]

	1 MTH	1 YEAR	3 YEARS P.A.	5 YEARS P.A.	SINCE INCEPTION P.A.
WHEB Sustainable Impact Fund	-5.0%	-9.7%	4.7%		
Strategy (partial simulation – see below)				7.9%	5.7%
MSCI World Total Return Index (net, AUD unhedged)	-3.1%	4.9%	10.1%	11.3%	6.8%

PERFORMANCE CHART

NET PERFORMANCE SINCE INCEPTION[2]



TOP HOLDINGS (ALPHABETICALLY)

CSL	Health Care
Ecolab	Materials
HelloFresh SE	Consumer Staples
Icon	Health Care
Infineon Technologies AG	Information Technology
Koninklijke DSM	Materials
Linde	Materials
Power Integrations Inc	Information Technology
TE Connectivity	Information Technology
Thermo Fisher Scientific	Health Care

SECTOR BREAKDOWN

Consumer Discretionary	3.8%
Consumer Staples	3.1%
Health Care	28.7%
Industrials	25.8%
Information Technology	25.4%
Materials	11.4%
Cash	1.9%

CAPITALISATION BREAKDOWN

2-10bn	29.8%
10-20bn	18.5%
>20bn	49.9%
Cash	1.9%

CUSTOM SECTOR BREAKDOWN

Health	25.6%
Resource Efficiency	26.6%
Sustainable Transport	10.3%
Environmental Services	9.9%
Water Management	7.2%
Safety	4.8%
Cleaner Energy	4.7%
Wellbeing	7.4%
Education	1.6%
Cash	1.9%

REGION BREAKDOWN

North America	54%
Europe ex-UK	23.2%
Japan	8.6%
UK	7.3%
Asia Pacific	5%
Cash	1.9%

A DEEP DIVE INTO HELLOFRESH

COMMENTARY

Growth stocks have been under pressure as rising expectations for inflation and interest rates have led to a sharp rotation in markets. One of our holdings, HelloFresh, has been particularly hit. Senior Analyst, Ben Kluftinger, takes a closer look at the stock, its positive impact, and why we continue to believe in HelloFresh.

WHEB have recently become a Founding Signatory of ACT – the corporate culture standard for investment companies. Launched earlier this week by City Hive, a think tank and advocacy group, the ACT standard of corporate culture for investment companies captures the essence of an investment management company's 'heart and soul'. It provides professional investors with a framework to assess, measure, and be a catalyst for change.

We recently published our Q1 2022 Report as well as held a Portfolio and Investment Update webinar. Financial planners may also complete a short questionnaire available HERE for CPD points.

Markets were significantly weaker in April, particularly in the US where the Nasdaq Composite fell more than 13%, its worst monthly performance since October 2008. The S&P 500 also has had its worst start to a year since 1939, down 13% so far. The weakness reflected increasing nervousness about interest rate increases as inflation reached new multi-decade highs.

The Fund underperformed the MSCI World Index in April, returning -5.0% vs -3.1% for the benchmark. Inflation concerns and supply chain disruption continued to weigh on the Resource Efficiency theme, while the prospect of higher interest rates affected higher growth names in Cleaner Energy and Health. Losses were partially offset by our Environmental Services and Education portfolio companies.

Resource Efficiency was the weakest theme in April, with Daifuku being the largest negative contributor. **Daifuku** is a warehouse automation equipment provider in Japan which has been impacted by rising costs and delays in the availability of some parts due to supply chain disruptions. There are also concerns that it will face slower demand from automotive customers, given the headwinds that industry is currently facing. However, both inflationary pressures and supply chain disruption, as well as the recent trend towards deglobalisation provide longer term tailwinds for warehouse automation companies. Recent results from Daifuku show continuing positive order trends and even in this environment, management upgraded operating margin guidance. We remain confident in the company's ability to manage these short-term headwinds and capture the long-term opportunity in automation equipment.

Fisher & Paykel (in our Health theme) manufactures medical devices which are used in patient ventilation, both in the hospital and homecare setting. It benefited from abnormal demand levels during Covid and as expected, demand subsided in the subsequent period. However, the company announced guidance which suggested a larger than expected decline in hospital hardware sales and flat consumables sales for the full year which weighed on the stock. Despite the short-term impact of post-pandemic normalisation, we still see a long-term benefit to adoption of Fisher & Paykel's technology, as well as a larger installed base for consumables sales.

Having been one of the top positive contributors in March, Solar Edge was the weakest performer within our Cleaner Energy theme in April. This partly reflected the rotation away from higher growth stocks, but it also reflected concerns about the challenging cost environment and the potential impact on margins, as well as the impact that delays and shortages may have on the ability to deliver on growth. As with Daifuku, the company's underlying results were more encouraging, particularly demand in Europe which is accelerating strongly as the continent seeks to harness renewables and as a means to increasing energy security.

Environmental Services and Education both generated positive returns. Smurfit Kappa contributed positively as it rebounded from low levels after results beat expectations on very strong pricing, offsetting cost inflation. Within Education, Grand Canyon Education continued to show relative defensiveness given its lack of exposure to current short-term challenges.

The expectation of higher interest rates continues to weigh on the portfolio, as the market experiences a major shift from growth to value. This has been compounded at the stock level by our more industrially focused exposures where supply chain disruption and inflation are felt most acutely. However, we continue to focus on the longer-term opportunities that this environment is presenting. We remain confident that our holdings are increasingly well placed to capture secular growth drivers coming from the shift towards a more sustainable economy.

A deep dive into HelloFresh

HelloFresh, the meal kit provider, has been one of our worst performers so far this year, having shed almost 60% of its peak value since early December – all while still reporting substantial subscriber growth and record revenues. We want to remind our investors why we are holding it and despite the painful short-term performance, why we believe it will be a positive contributor to our strategy in the long-term.

To recap, HelloFresh is the global leader in providing meal kits for easy home cooking. It operates in 16 countries and is the undisputed market leader in most. In 2021, it sold more than 1bn meal kits achieving a turnover of €6.0bn (+60%) and operating profit of €527m. By 2025, it targets sales above €10bn and EBITDA margins well above 10% – and this is a conservative target in our view.

Are meal kits impactful?

What can possibly be sustainable and impactful about meal kits? A lot. So much in fact that we had a long discussion whether the stock should be categorised under our Resource Efficiency theme or under Wellbeing. In the end, we opted for the latter since for the end user, this is the primary benefit.

There are numerous studies which show that meal kits reduce food waste and thus carbon emissions relative to supermarket-sourced home-cooked meals. For example, in 2019 the University of Michigan produced an academic paper showing that on average, grocery meal greenhouse gas (GHG) emissions are net 33% higher than emissions associated with meal kits. This also takes packaging into account. In its latest sustainability report, HelloFresh backed this up with its own life cycle assessment along the entire value chain across several regions and meals to show that HelloFresh meals generate 25% fewer GHG emissions compared to those bought in supermarkets.

However, this does not mean that we give meal kits a free pass on plastic packaging waste, which clearly has a negative impact, and this is an active engagement topic for us. We are pleased to see that HelloFresh is aware of this issue and is working hard to reduce and potentially eliminate non-recyclable plastics from its products over time. In 2021, it reduced its plastics and mixed packaging by 32% per meal.

The impact from a Wellbeing perspective is three-fold: HelloFresh makes fresh and healthy food more accessible and convenient, the meals are calorie and portion-controlled, and there is an educational element from cooking tasty meals yourself and it creates a sense of achievement.

Why we continue to believe in HelloFresh

We believe that HelloFresh has a bright future with many years of profitable double-digit revenue growth ahead, for the following reasons:

- HelloFresh is an e-commerce company benefitting from the shift to online from bricks-and-mortar. The meal kit market had shown healthy double-digit growth before Covid. The pandemic has been an accelerator of this shift. It has also expanded the company's customer base thanks to the increased working from home environment.
- The meal kit and online food market is still in its infancy but growing rapidly. Online Food and Beverage accounts for just 5% of a US$1.1trn global market. HelloFresh's current markets account for 176m households which consume 225bn meals at home annually. In 2021, HelloFresh served 0.45% of those.
- HelloFresh has established itself as the market leader in most countries it operates in (and if not, a close second). They leave very little to chance – it is a deeply data-driven company with technology at its core. Its rapidly expanding tech team (HelloFresh is currently adding 1000 new technology roles) is responsible for everything from the digital product to developing new recipes to powering supply chains and logistics. This is combined with numerous pilots and digital experiments to collect and validate additional data. Its approach is unmatched by any competitor and a crucial differentiator. It gives it a clear understanding of its customers' lifetime value ensuring it achieves the targeted returns.
- HelloFresh pursues a three pillar growth strategy of deeper penetration of its existing markets by 1) offering an ever-growing range of healthy meals at greater convenience and improving value, 2) expanding its addressable market geographically by entering 1-2 new markets every year and adding new verticals (e.g. healthy ready-to-eat meals, add-on food items), and 3) improving the monetisation of its customer base by offering increasing customisation of meals and expanding into other meal options.

A perfect storm in the short-term

HelloFresh has had a tough ride over the past 5 months. We believe this has been caused by a quadruple whammy of headwinds:

- **Market rotation**. HelloFresh is a growth stock and was valued accordingly. Since late 2021, the market has been rotating from growth to value stocks, which has hit high growth / high valuation-multiple stocks.
- **Reversal of Covid-trade**. With Covid expected to shift from pandemic to endemic status in developed countries soon, many companies which benefited from the trading conditions during the pandemic have

underperformed as the market expected these gains to reverse. HelloFresh saw an acceleration of growth during the pandemic driven by increased home working.

- 2022 an investment year. At its Capital Markets Day in December, the company said that thanks to the large number of growth opportunities, it had decided to accelerate its investment schedule, but this would be at a short-term cost to profit margins.
- Russia's invasion of Ukraine. The war in Ukraine has accelerated food and energy cost inflation which is adding additional margin pressure.

We think all these issues will be transient and expect HelloFresh to emerge from this period even more strongly positioned than it was before. HelloFresh continues to substantially outgrow its competitors, both on revenues and profitability. There is ample anecdotal evidence that post-Covid customer behaviour will not revert to pre-Covid levels – meal kits have become part of normal life. All that said, ultimately the proof of the pudding is in the eating.

FEATURES

APIR CODE	HHA0007AU
REDEMPTION PRICE	A$ 1.3638
FEES *	Management Fee: 1.35%
MINIMUM INITIAL INVESTMENT	$10,000
FUM AT MONTH END	A$ 260.66m
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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