PENGANA
CAPITAL GROUP

MONTHLY REPORT
DECEMBER 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.'

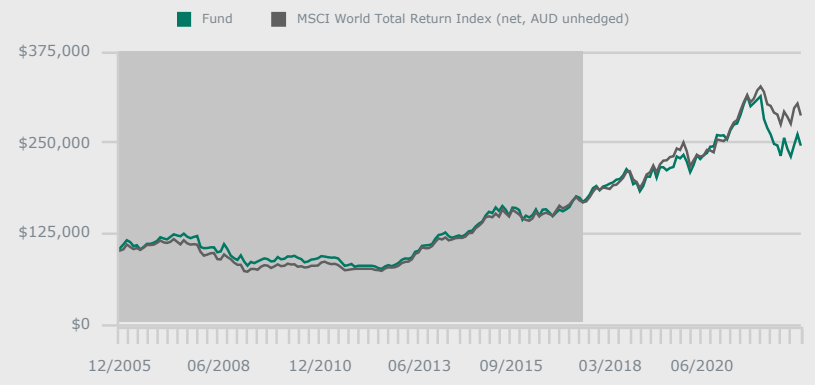
PERFORMANCE TABLE

NET PERFORMANCE FOR PERIODS ENDING 31 Dec 2022[1]

	1 MTH	1 YEAR	3 YEARS P.A.	5 YEARS P.A.	SINCE INCEPTION P.A.
WHEB Sustainable Impact Fund	-5.9%	-21.7%	2.5%	5.9%	
Strategy (partial simulation – see below)					5.4%
MSCI World Total Return Index (net, AUD unhedged)	-5.4%	-12.2%	6.2%	9.2%	6.4%

PERFORMANCE CHART

NET PERFORMANCE SINCE INCEPTION[2]



TOP HOLDINGS (ALPHABETICALLY)

Advanced Drainage Systems Inc	Industrials
Ansys	Information Technology
CSL	Health Care
Danaher	Health Care
Globus Medical Inc	Health Care
Icon	Health Care
Linde	Materials
Steris	Health Care
Thermo Fisher Scientific	Health Care
Trane Technologies PLC	Industrials

SECTOR BREAKDOWN

Consumer Discretionary	3.8%
Consumer Staples	1.9%
Health Care	31.2%
Industrials	22.1%
Information Technology	27.2%
Materials	12.1%
Cash	1.6%

CAPITALISATION BREAKDOWN

2-10bn	29.6%
10-20bn	23.7%
>20bn	45.1%
Cash	1.6%

CUSTOM SECTOR BREAKDOWN

Health	25.2%
Resource Efficiency	24.4%
Sustainable Transport	9.8%
Environmental Services	11.4%
Water Management	7.6%
Safety	5.5%
Cleaner Energy	6.4%
Wellbeing	6.4%
Education	1.7%
Cash	1.6%

REGION BREAKDOWN

North America	57.1%
Europe ex-UK	21%
Japan	7.1%
UK	7.4%
Asia Pacific	5.7%
Cash	1.6%

WHEB'S PERFORMANCE REVIEW OF 2022

COMMENTARY

December proved a bruising month for equities. The US Federal Reserve stressed that interest rates were unlikely to fall over 2023, despite slowing inflation, and the European Central Bank warned markets not to expect an end to rate rises, even as the region is expected to slide into recession. As a result of these recessionary fears, defensive sectors fared better during the month.

The fund, which returned -5.9%, slightly underperformed the MSCI World Index, which returned -5.4%, over December. Resource Efficiency and Water Management were our worst performing themes over the month while Environmental Services and Safety were the best. The strategy was impacted by being underweight certain value and defensive sectors.

In our commentary, Fund Manager Ted Franks discusses the key events of 2022 and the implications of this challenging year on our strategy. He concludes that, despite the many current crosswinds and challenges, the need to address longer term sustainability issues has never been greater, and our companies are part of the solution.

In other news, WHEB signed the Finance for Biodiversity Pledge during COP15 calling on global leaders and committing to protect and restore biodiversity through their finance activities and investments. This pledge now represents 126 signatories from 21 countries with €18.8tn of assets under management.

2022 was a challenging year for the global economy. Geopolitical tensions between liberal democracies and authoritarian states finally cracked. Russia's invasion of Ukraine shocked observers and extracted a dreadful humanitarian toll. Xi Jinping's consolidation of power in China accelerated a rethink of relations with that country. Two decades of uneasy but profitable openness came to an abrupt halt.

This rift is a challenging headwind in the fight for sustainability. In 2022 it also presented immediate economic challenges. Energy prices rose fiercely. The global supply chain buckled, raising input prices. Labour shortages emerged in many markets. Inflation shot to record levels, prompting rapid increases in interest rates from central banks.

Against this recessionary backdrop, global financial markets contracted. The fund's benchmark, the MSCI World Index of stocks, fell as much as 18.8% before recovering to end the year 12.2% down.

Underneath that headline move, there was a very marked style rotation between "growth" and "value" strategies. "Growth" companies justify their valuations on future prospects. With interest rates rising, the cost of waiting for those growing profits rose, and share prices consequently fell. Meanwhile, "value" companies that can point to near-term cash flow came into favour. The MSCI World Value Index (which ended flat) outperformed the MSCI World Growth Index by more than 24% in AUD over 2022.

There were also quite marked differences in performance from different sectors of the economy. Higher energy prices buoyed energy producers, whether renewable or fossil. Otherwise, recessionary fears benefitted defensive sectors such as utilities, consumer staples and financials.

Sectors relying on consumer and business confidence, such as consumer discretionary and industrials, had a more difficult year. Some of the weakest performance was in the information and communication technology sectors, where growth expectations had been highest.

Smaller or mid-sized companies also underperformed their larger peers, for the 7th year out of 10.

The investment strategy's natural biases are on the wrong side of many of these market moves. As an impact strategy, we tend towards companies with strong growth prospects. Our companies provide solutions to sustainability challenges, and the need for their products and services is growing rather than falling. We also favour "pure play" companies where we can find them, and it is unusual to find very large companies which are dedicated to sustainability solutions.

As a consequence, the fund struggled in 2022. The Fund fell 21.7%, underperforming by 9.5%.

The largest proportion of that underperformance came from companies in our Resource Efficiency theme. This is one of our two largest themes, along with Health. Many of the companies in this theme can be somewhat cyclical. They have good long term growth prospects, but any given year can be influenced by economic conditions. They tend to be either industrial or information technology companies.

In the face of falling business confidence, many of these companies struggled this year. They include: computer-aided design companies **Autodesk** and **Ansys**; semiconductor manufacturer **Silicon Labs**; and industrial efficiency companies including **Spirax-Sarco**, **Keyence** and **Daifuku**.

This last group also includes the worst contributing stock in the Resource Efficiency theme, **Kion**. Kion makes energy-efficient forklift trucks, but also has a warehouse automation division which we were particularly interested in. In the middle of the year it issued a major profit warning. The long-term contracts it had signed did not allow for the pass-through of increased input costs. This was contrary to what we had previously understood so we sold our position.

As our Resource Efficiency theme faced falling business confidence, so our next-weakest theme, Wellbeing, suffered from pressure on consumers. This was particularly felt by the worst-contributing stock in the theme, **HelloFresh**.

HelloFresh is the world's leading meal kit delivery company. It provides a healthier alternative to ready-prepared food and is also helping to decarbonise the food supply chain. Despite relatively resilient operational and financial performance, HelloFresh's shares were hit by fears over falling consumer spending. We continue to think that the company is well-placed for continued profitable growth.

The Wellbeing theme was also weakened by the poor performance of **Orpea**. Orpea is a care home operator, primarily across Europe. In the early part of the year, allegations emerged of poor quality care in one of its French divisions. Unfortunately these allegations, and more damagingly, management's response to them, fell far below the standard we expect of our companies so we closed our position.

On the other side of the ledger, our best performing theme was Cleaner Energy. **FirstSolar**, **SolarEdge** and **Vestas** in the theme all performed strongly. The war in Ukraine has further highlighted the need to move away from volatile and politically costly fossil fuels. A landmark piece of legislation from the US, the Inflation Reduction Act, also drove strong share price performance.

The Education theme was another positive contributor. **Grand Canyon Education** in that theme recovered strongly as student enrolment trends began to improve.

The remaining five themes were all smaller negative contributors. This includes our Health theme. Although we do have stocks in this theme with defensive characteristics, the more impactful and innovative healthcare names we invest in tend to be more growth-orientated. **Fisher and Paykel** and **ICON** were notable negative contributors in this theme.

We took advantage of the market volatility in the first part of the year, to invest in several companies we had been monitoring for a while. This resulted in seven additions and eight exits in the first quarter of the year.

After those changes, the portfolio has remained largely consistent. Given the new uncertainties in the global economy, we have been working hard to make sure our companies still represent compelling investment opportunities. We are confident that they are. Despite the many current crosswinds and challenges, the need to address longer term sustainability issues has never been greater, and our companies are part of the solution.

FEATURES

APIR CODE	HHA0007AU
REDEMPTION PRICE	A$ 1.3494
FEES *	Management Fee: 1.35%
MINIMUM INITIAL INVESTMENT	$10,000
FUM AT MONTH END	A$ 253.89m
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. Please refer to the PDS for information regarding risks. 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.

PENGANA WHEB SUSTAINABLE IMPACT FUND

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