



Product Review

Pengana WHEB Sustainable Impact Fund

ISSUE DATE 21-04-2021

About this Review

ASSET CLASS REVIEWED	GLOBAL EQUITIES
SECTOR REVIEWED	GLOBAL LARGE CAP
SUB SECTOR REVIEWED	FUNDAMENTAL THEMATIC
TOTAL FUNDS RATED	9

About this Fund

ASIC RG240 CLASSIFIED	NO
FUND REVIEWED	PENGANA WHEB SUSTAINABLE IMPACT FUND
APIR CODE	HHA0007AU
PDS OBJECTIVE	TO ACHIEVE CAPITAL GROWTH OVER THE MEDIUM TO LONGER TERM
INTERNAL OBJECTIVE	EXCESS RETURN OF 3% P.A. ABOVE MSCI WORLD INDEX OVER ROLLING 3-YEAR PERIODS (PRE FEES)
STATED RISK OBJECTIVE	EXPECTED TRACKING ERROR 4-7% P.A.
DISTRIBUTION FREQUENCY	ANNUAL
FUND SIZE	AS117.6M (31 MARCH 2021)
FUND INCEPTION	31-10-2007
MANAGEMENT COSTS	1.35% P.A.
RESPONSIBLE ENTITY	PENGANA CAPITAL LIMITED

About the Fund Manager

FUND MANAGER	WHEB ASSET MANAGEMENT LLP
OWNERSHIP	60% WHEB GROUP / 40% INVESTMENT TEAM
ASSETS MANAGED IN THIS SECTOR	AS2.1B (31 MARCH 2021)
YEARS MANAGING THIS ASSET CLASS	15

Investment Team

PORTFOLIO MANAGER	TED FRANKS
INVESTMENT TEAM SIZE	5
INVESTMENT TEAM TURNOVER	LOW

Investment process

STYLE	GARP
MARKET CAPITALISATION BIAS	SMALL/MID
BENCHMARK	MSCI WORLD TR NET AUD UNHEDGED
TYPICAL STOCK NUMBERS	40-60
STOCK LIMITS	5%
THEME LIMITS	30%
CASH LIMIT	5%
CURRENCY APPROACH	UNHEDGED

Fund rating history

APRIL 2021	HIGHLY RECOMMENDED
JANUARY 2020	HIGHLY RECOMMENDED
APRIL 2019	HIGHLY RECOMMENDED

What this Rating means

The 'Highly Recommended' rating indicates that Lonsec has very strong conviction the financial product can generate risk adjusted returns in line with relevant objectives. The financial product is considered a preferred entry point to this asset class or strategy.

Strengths

- Team has a long track record managing money as global equity ESG specialists.
- Strong philosophical commitment to ESG investing, evident in extensive ESG integration in the investment process.
- Superior level of transparency and accountability governing the investment stewardship of the Fund.
- Strategy is highly differentiated relative to peers in the sector.

Weaknesses

- Team is lightly resourced versus global equity peers, especially given specialised investment universe albeit this is being progressively addressed.
- Fund's sustainability approach may translate to a less diversified portfolio versus some core global equity funds.
- The Fund's management cost is at the upper end of the peer group.

Fund Risk Characteristics

	LOW	MODERATE	HIGH
BUSINESS SUSTAINABILITY RISK			●
CAPITAL VOLATILITY			●
FOREIGN CURRENCY EXPOSURE			●
SECURITY LIQUIDITY RISK		●	
SECURITY CONCENTRATION RISK		●	

Risk categories are based on Lonsec's qualitative opinion of the risks inherent in the financial product's asset class and the risks relative to other financial products in the relevant Lonsec sector universe.

BIometrics

Aggregated risks

	1	2	3	4	5	6	7
STD RISK MEASURE						●	

A Standard Risk Measure score of 6 equates to a Risk Label of 'High' and an estimated number of negative annual returns over any 20 year period of 4 to less than 6. This is a measure of expected frequency (not magnitude) of capital losses, calculated in accordance with ASFA/FSC guidelines.

	LOW	MODERATE	HIGH
RISK TO INCOME		●	

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Features and benefits

	LOW	MODERATE	HIGH
COMPLEXITY		●	
ESG			●

Fee profile

	LOW	MODERATE	HIGH
FEES VS. UNIVERSE			●
FEES VS. ASSET CLASS		●	
FEES VS. SUB-SECTOR		●	

Fee BIometrics are a function of expected total fee as a percentage of expected total return.

What is this Fund?

- The Pengana WHEB Sustainable Impact Fund ('the Fund') is an actively managed, 'long only', benchmark-unaware global equity strategy providing heightened exposure to companies responding to global sustainability challenges. Pengana has appointed the London-based investment manager, WHEB Asset Management Ltd ('WHEB' or 'the Manager') to manage the underlying securities of the Fund.
- WHEB applies bottom-up stock selection to identify global companies deemed attractive within the prism of nine sustainable investment themes – a mix including environmental (e.g. cleaner energy, sustainable transport, and water management) and social (e.g. education, health, and well-being). Investments are made in companies with at least 50% of their revenue or profits generated by their activities within one or more of these nine sustainability themes.
- The Fund is managed to a sustainable Growth at a Reasonable Price (GARP) investment style therefore seeking to identify companies which provide structural growth and are trading at attractive valuations. Further, it will typically exhibit a small to mid-cap bias with a large portion of the portfolio held in US\$2-10 billion market-cap companies. Portfolio construction tends to be benchmark-unaware apart from regionally where positioning is tightly constrained to the benchmark's (MSCI World Total Return Index net AUD unhedged) regional composition.
- The Manager has a long-term investment horizon for company forecasts / valuations, which is consistent with their growth-biased investment style. In light of this, the Manager adopts a 'buy and hold' strategy, which transcends into a portfolio that will typically experience very low levels of stock turnover (circa. 20% p.a.).
- Active Share (which is a measure of the difference between the portfolio and the benchmark) is typically above 95% compared to the reference global equity benchmark. Lonsec notes that this level is not surprising given the Manager's environmental and social focus. Nevertheless, Lonsec cautions that the Fund may not be suitable for clients seeking a core global equity option but rather is best placed for those investors seeking a differentiated tilt to sustainable sectors in their global equities allocation or as an additional complement to their core global equities selection.

- While the Manager does not formally apply negative screening akin to a traditional ethical fund, by nature of the focus on sustainability themes (positive screening), the Manager does not invest in areas often regarded as sensitive for ethical investors. This includes companies exposed to tobacco, alcohol, gambling, pornography, and weapons manufacturing.
- The Manager subscribes heavily to the alpha generation opportunity from ESG analysis. A company's ESG awareness and management of sustainability issues are viewed as integral to corporate health and long-term financial performance. As such, the assessment of ESG factors is incorporated throughout the entirety of the Manager's investment process (eg. themes development, industry research, bottom-up company valuation, portfolio construction).
- As per the PDS dated 1 December 2020, the ongoing annual fees and cost to investors in the Fund includes (a) management fees and costs of 1.35% p.a. which comprise 1.35% p.a. (management fee) and 0% p.a. (estimated indirect costs) (b) net transaction costs for the Fund were 0.186% p.a. for the 12-month period ended 30 June 2020. Transaction costs include explicit (e.g. brokerage, stamp duty, clearing) and implicit costs (buy/sell spreads in fixed income) of buying and selling underlying assets (like shares or fixed income) and the cost of hedging/protection strategies are incurred in managing the Fund. These costs are not paid to the Manager. Some transaction costs may be incurred due to investor activity (e.g. buying securities when new application money flows into the Fund and selling securities to meet Fund redemptions) and these may be recouped via Fund buy/sell spread (an investor activity fee). As at the time of this review Fund buy/sell spreads were 0.30%/0.30% p.a. but as these can change frequently depending on market conditions, please refer to Manager for latest information.

Using this Fund

This is General Advice only and should be read in conjunction with the Disclaimer, Disclosure and Warning on the final page.

- The Fund is a 'long only' global equity product, specialising in environmental sustainability, resource efficiency and social themes, and as such will generally sit within the growth component of a balanced portfolio. In Lonsec's view, the Fund's significant level of positive ethical / SRI screening still enables the Manager to diversify the portfolio either through sector and / or stock selection. The Fund is suitable for mid- to high-risk profile investors with at least a five-year investment time horizon.
- A GARP investment style normally aims to invest in stocks with solid long-term growth prospects, however without paying too high a valuation. In this sense, the GARP style can be considered somewhat of a blend between 'Growth' and 'Value'. Lonsec considers the Fund to be suitable for blending with other Global Equity strategies including growth and core style biased funds, Small Cap or Long / Short products.

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- Lonsec believes that investors seeking exposure to global equities should primarily invest in well-diversified global equities funds that are able to take advantage of mispricing opportunities across stocks and regions. Lonsec considers that allocations to specialist funds such as this, may provide diversification benefits to portfolios with broader global equities exposure. However, Lonsec notes the appropriateness of such ‘tilts’ depend on a client’s risk tolerance.
- Given the heightened environmental and social focus of the Manager, the strategy will typically contain a limited exposure to large components of the global investment opportunity set including financials, materials, fossil fuel production and real estate.

Suggested Lonsec risk profile suitability

SECURE DEFENSIVE CONSERVATIVE BALANCED GROWTH HIGH GROWTH



For guidance on appropriate asset allocations and risk profiles, refer to the latest Lonsec Strategic Asset Allocation Review and Risk Profile Definitions on our website.

Changes Since Previous Lonsec Review

- Claire Jervis joined as an Investment Analyst in January 2021. Jervis has six years of investment experience, having worked at Barings as an Investment Specialist and ESG Champion covering Developed Equities, with a particular focus on Small Cap Equities.
- Kelly Clark departed from the Investment Advisory Committee after serving her tenure. She is replaced by Ray Dhirani, Head of Sustainable Finance at WWF.

Lonsec Opinion of this Fund

People and resources

- Founded in 2009 by Ted Franks and Clare Brook, WHEB is a global sustainability ESG specialist applying a single investment process and strategy. The business is led by Chief Risk Officer (CRO) and Managing Partner, George Latham, who joined WHEB alongside Head of Research, Seb Beloe, in 2012 from Henderson Global Investors (‘Henderson’). Latham was the head of Henderson’s SRI ‘Industries of the Future’ investment team, a team essentially applying the current investment process utilised at WHEB, and effectively joined WHEB to reboot the investment capability.
- Latham, who has 24 years’ investment experience wears multiple hats at the boutique including overseeing the investment process, chairing the investment risk committee and business development. Importantly, Latham is external to the investment team and as such, not involved in the day-to-day stock research and portfolio construction decision making. Nevertheless, with his oversight role, Latham is still viewed as influential in the overall positioning and management of the Fund. Lonsec has met with Latham on a number of occasions and believes him to be of a high calibre. More specifically, Lonsec has a favourable view of Latham’s deep experience in Responsible Investments, and more broadly, in applying this investment process.

- Franks is the Lead Portfolio Manager and a partner in the firm, bringing 15 years’ investment experience with 12 years at WHEB. Within a relatively flat, consensus-driven decision-making approach, Franks is ultimately accountable for the Fund’s performance, being charged with stock selection and portfolio construction. Lonsec has met with Franks multiple times and regards him as a valuable feature in this team, conveying a sound investment philosophy and understanding of overall themes, individual holdings and portfolio positioning.
- Beloe, as Head of Research, is responsible for the integration of sustainability analysis within the investment process and leads the firm’s engagement activities. Beloe is a partner at the firm and brings 25 years’ of industry experience, the bulk of which has been gained within sustainability investing, having previously been Head of SRI research at Henderson. In Lonsec’s view, Beloe’s investment experience and leadership of the ESG focus is viewed as a key asset to the investment team and the Fund.
- The rest of the investment team consists of Senior Analyst Ben Klufftinger, Associate Fund Manager Ty Lee and newly joined Investment Analyst Claire Jervis. The majority of their time spent is principally involved in stock research. Klufftinger possesses 21 years’ industry experience and previously worked on the sell-side (Macquarie and Citigroup) and has prior experience covering the renewables sector. Lee has 16 years’ industry experience including nine years at WHEB, and has previously worked in corporate finance and consulting. As Associate Fund Manager, Lee is essentially backup to Franks and, together with Beloe, is authorised to make portfolio management decisions and chair investment team meetings in Franks’ absence. Lonsec has met with both Klufftinger and Lee and believes they are capable and experienced investors.
- Team stability has been largely favourable over recent years with the most recent departure being Fund Manager Tim Dieppe, in 2016. Dieppe was previously a partner of the firm and had joined from Henderson in 2012. With five investors responsible for the stock research effort, Lonsec notes the relatively small team has a high workload given the demands of the investment process and relative to the wider global equity peer group, the team also has a considerable impact reporting burden. Lonsec is pleased though with the Manager’s effort in addressing these concerns, including the recent hire of Analyst Claire Jervis, last year’s addition of a Data Analyst and the plan to onboard an Associate Portfolio Manager in July.
- An Advisory Committee comprising largely external industry experts also contributes to the strategy through ESG thematic input and portfolio oversight. The group meets three times per year and while not seeking to advise on stock selection, the forum considers portfolio positioning and discusses sustainability trends and developments. Importantly, Lonsec notes the Committee can recommend a holding be sold if deemed inappropriate or at odds with the Fund’s sustainability criteria. This forum is Chaired by Geoff Hall, non-executive Chairman of WHEB. There are currently five members in the Committee, consisting of individuals with a

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diverse background in responsible investments including sustainable investment practitioners, and representatives of the not-for-profit and NGO sectors. Lonsec looks favourably on this group's contribution to the investment process and it is considered further evidence of WHEB's commitment to maintaining the ESG integrity of the investment approach.

- Lonsec views key person risk as relatively high and to reside with a few individuals, namely Latham, Franks and Beloe. As a small team within a boutique operation, the Manager is more susceptible to damage from a key departure than other teams with greater resourcing. While these individuals have significant tie-in given their equity holdings in the firm, Lonsec's rating for the Fund would be under review should the team experience a material departure.
- Lonsec judges alignment of interest to be reasonably high with Latham, Beloe and Franks, alongside the Chairman of WHEB, having a combined 40% ownership of the business and with a significant amount co-invested in the Fund. As such, these individuals do not have a typical long-term incentive structure tied to pre-defined performance outcomes of the Fund, rather their equity ownership is their sole form of variable remuneration. That said, for analysts Klufftinger and Lee, the Manager is currently reviewing their remuneration structure, seeking to provide greater alignment and tie-in as these individuals do not currently have equity. Lonsec will be keen to observe the outcome of this review.
- Business profitability has gradually improved over the years. After an initial period of sluggish growth in assets under management (AUM). After becoming profitable in May 2018, WHEB's AUM continues to grow, with the firm managing over A\$2.1 billion as at 31 March 2021. While Lonsec is encouraged by these developments, business viability will continue to be an area of focus during future review meetings.

Research and portfolio construction

- WHEB's investment philosophy is framed around the concepts of 'sustainability', 'growth', 'quality' and 'valuation'. The strategy focuses on nine sustainable investment themes; five environmental (cleaner energy, environmental services, resource efficiency, sustainable transport, and water management), and four social themes; (education, health, safety, and well-being). Individual stocks are selected through a 'bottom-up' fundamental research process, targeting companies providing solutions to sustainability challenges. The strategy invests in companies gaining at least 50% of revenue or profits generated by their activities within the Manager's nine sustainability themes, but in practice exposure is over 80% on average across the portfolio. Lonsec looks favourably on WHEB's transparency around disclosure on this aspect, believing it to be an important credibility test of the investment process and a material consideration for investors.
- Lonsec views the sustainability themes as wide-ranging and investable, enabling the Manager to gain exposure to a broad range of companies and sectors within the constraints of a sustainability prism. While the themes are unchanged over the lifetime of the strategy, Lonsec notes that WHEB has

had sufficient flexibility to incorporate more recent sustainability developments into the investment approach, reflecting the Manager's recognition of an ever-evolving sector. This includes the emergence of electric and autonomous vehicles within the 'Transport' theme and the rising focus on healthier eating and obesity risk under the 'Well-being' theme.

- Pleasingly, the investment team regularly conducts research within the themes to identify new ideas. Although more recently the Manager has sought to explore thematic research within the context of a cluster of stocks on an ad-hoc basis, rather than more broad-based annual thematic research. Lonsec considers this to be somewhat of a natural evolution of the process, given the majority of the thematic research done previously still remains relevant today. That said, Lonsec believed this to be a differentiating feature of the investment process aiding in idea generation and improving the Manager's ability to identify sustainability trends at an earlier stage than competitors applying traditional global equity research approaches. Lonsec will continue to test this area of the Manager's process during future reviews.
- The investment team is structured with all five members providing stock analysis. Each analyst typically covers around 10-15 stocks and works under a generalist framework, as opposed to sector specialisation often practiced by many global equity peers. Within this team-based approach and relatively non-hierarchical structure, Lonsec looks favourably on the role of Franks as the Lead Portfolio Manager, having final decision-making approval on stocks, which seeks to improve overall accountability. Further, Beloe as Head of Research aids in directing analysts towards areas of research focus and assists in prioritising the team's workflow.
- The team seeks to avoid analysts falling in love with stocks by firstly appointing a separate analyst to take on the idea for further research, following the initial approval by the investment committee; and secondly, by rotating stock research ownership among analysts every eighteen months. While this undoubtedly creates more work for a relatively small team, Lonsec believes this maintains the efficacy of the company research discipline and may improve debate within the team.
- Lonsec regards the Manager's investment approach as research intensive and proprietary in nature. While the Manager has the flexibility to access external research to supplement and test internal conclusions, given the specialised nature of the Manager's investment philosophy and process, it is highly dependent on the investment skill and expertise of its investment personnel. The heightened ESG and sustainability focus are not areas globally with deep levels of investment talent, although this may leave the Manager exposed to the risk of losing personnel. This also places emphasis on the Manager's ability to capture its proprietary research on appropriate systems. Lonsec believes the Manager has structures in place to manage this risk.
- The process combines numerous elements commonly found in fundamental, bottom-up investment research including company visitation, company financials analysis, some modelling of company earnings history and forecast growth, industry

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research, competitor analysis, and global research trips. Pleasingly, analyst research is captured in a centralised database and standard templates including the investment recommendation assist in facilitating peer review.

- ESG research is a central feature of all aspects of the Manager's research approach, e.g. from identification of long-term sustainability trends to measuring the company's management of its environmental impact to its corporate governance rigour. The Manager looks to multiple avenues to gain this ESG edge including via their Advisory Committee. Lonsec is pleased that the Manager has an extensive list of ESG affiliations including being a member of several highly-regarded organisations including the UN PRI, B Corps and the Institutional Investors Group on Climate Change (IIGCC). WHEB also reports regularly on its engagement activities and how the portfolio contributes to sustainability constructs such as the UN Sustainable Development Goals. In 2019, WHEB engaged on ESG issues with 43 individual companies representing 83% of the holdings, with around 70% of those engagements assessed to be partially or fully successful. Lonsec believes the Manager is at the forefront of ESG investment and this aspect of the Manager's investment approach will readily appeal to ESG focussed investors.
- Despite the relatively specialised nature of the investment universe, Lonsec believes there is a reasonable depth of stocks under coverage from which to build portfolios. The investment team currently has investment profiles for approximately 400 stocks, with the team looking to refresh and add 30-50 new profiles each year to its universe.
- Analysts must determine a fundamental score for each company, seeking to assess a company's business strength, its quality (both sustainable and financial) and its market position, and combine this with an expected valuation over a three to seven-year investment time horizon. Analysts have freedom to choose the valuation metrics they believe to be the most suitable for each investment case. Lonsec believes that the use of flexible valuation tools and methodologies, dependent on the industry or sector, may yield more informed outcomes, although the trade-off is a lack of both uniformity and standardisation of output. Moreover, this freedom may also result in the 'cherry picking' of methodologies for favoured companies. That said, the Manager seeks to overcome this with the analyst rotation of stock coverage.
- Nonetheless, compared to some competitors, Lonsec observes that the research process generally does not incorporate extensive company modelling of, for example, a standard 5-years earnings forecast or forecast company price target at the heart of the investment case. Given the Manager's long-term investment time frame, it is more interested in understanding the return drivers of a company as they relate to sustainability. As such, modelling is a significantly less important aspect of the process and is relevant insofar as it helps determine when to enter or exit a holding. Within this approach, Lonsec observes that the Manager's valuation philosophy will tend to exhibit a higher tolerance for companies trading at a higher forward price earnings multiple,

potentially reflecting the high expected growth rates experienced within the companies identified. Lonsec will continue to test the Manager's approach to stock valuations in future reviews.

- The fundamental company scores and relative attractiveness of each stock in the portfolio leads to an overall conviction score, either A, B or C, which influences eventual position sizing with maximum limits depending on the score. This is accompanied with a determination of the relative attractiveness of the company's valuation. Only companies achieving positive appraisal on both aspects are considered for investment. Lonsec is pleased to observe a reasonable linkage between the team's stock research rankings and subsequent conviction scores, with that of the portfolio construction process, believing it should engender greater repeatability of outcomes.
- The Manager seeks to build a portfolio of 40-60 (46 as at 28 February 2021) of the most attractive ideas arising from the investment team. Lonsec highlights that in contrast to previous years, the strategy has become more concentrated, previously managing a portfolio of close to 70 stocks. Lonsec considers this to be a reasonable outcome, as a smaller portfolio allows for greater engagement and potential impact outcomes with portfolio companies.
- Not unlike most Responsible Investing peers, the philosophy of the approach leads to structural biases relative to a market wide benchmark. In this case, the thematic approach results in a structural underweight, and often absence from, certain sectors such as financials and energy, and a structural overweight in sectors such as healthcare and industrials.
- Stocks are sold when there is a change in fundamental view including a significant change in management or ESG assessment, or the valuation becomes unattractive. Nevertheless, Lonsec will continue to monitor the Manager's sell discipline, believing the combination of a longer-term investment horizon, intensive nature of the company research process, often focussing on the wider impact and sustainability of the companies offering, and flexible valuation assessment could lead to a more relaxed sell discipline compared to some global equity peers.

ESG Integration

- The Manager has articulated a commitment to the integration of ESG within their investment process with a strong policy framework and clear public positioning. The ESG policy is freely available on the firm's website. Overall Lonsec views the strength of this commitment to be above peers.
- The Manager has no publicly disclosed proxy voting policy but has provided a policy to Lonsec for review. Overall the level of detail provided within the proxy voting policy and outcomes is in-line with peers with a limited proxy voting policy framework. Reporting on voting decisions is publicly available and industry leading.
- The level of disclosure with respect to the Manager's engagement policies and engagement outcomes is considered better than peers with an industry leading engagement policy framework. Engagement

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reporting is publicly available and considered to be better than peers.

- The Manager has built a proprietary data collection model for use within the ESG elements of their investment process. There is extensive evidence of ESG integration within the research elements of the investment process. ESG factors are a significant element of the valuation processes with clear ESG tracking evident within the portfolio monitoring activities. Overall ESG integration across the investment process for the Fund was strong and demonstrated a leading position relative to peers in this sector.
- The lead PM demonstrated strong engagement on a broad range of ESG issues and the Manager could demonstrate clear ESG based engagement outcomes.
- Overall, on a peer relative basis, Lonsec considers the overall level of ESG integration within this fund to be HIGH.

Risk management

- Lonsec assesses risk management to be a central focus of the Manager's process, and rigorously applied throughout. The investment team is responsible for day-to-day management of portfolio risks ensuring the Fund is appropriately positioned within mandate constraints and operational compliance procedures are adhered to. There are a range of standard portfolio constraints in place including a maximum limit on stock positions of 5% (although in practice this will typically be 3%), minimum investible market cap (US\$200M), and single theme exposure (maximum 30%).
- Further, WHEB does not look to add value from country selection with regional positioning maintained within soft limits of the MSCI World Index weight +/-3%. Although, in general Lonsec believes the Manager provides a largely benchmark-unaware approach, with active share levels of 95% or more. Indeed, the bulk of the portfolio comprises off-benchmark names with less than 20% of the MSCI World Index residing within the Manager's investible universe.
- Pleasingly, a separate Investment and Risk Committee oversees the investment team and is responsible for monitoring overall portfolio risk. The Committee meets monthly to discuss multiple factors including tracking error, portfolio volatility, scenario analysis, concentration risk, liquidity risk, valuation risk, leverage, growth and ESG risk.
- Lonsec notes the role of the Pengana CIO, Nick Griffiths in also reviewing fund positioning separate from the WHEB investment team.

Funds under management (FUM)

- The Manager managed A\$2.1 billion as at 31 March 2021, up from A\$734 million as at November 2019. Estimated capacity for WHEB's sustainable impact strategy has been set at US\$3 billion and accordingly, at this stage has considerable room to grow. Lonsec is pleased with the relatively conservative capacity target given the small to mid-cap bias of the Fund which should serve to preserve the appeal and longevity of the offer. Lonsec will continue to monitor market support for WHEB's strategy, FUM and its management of capacity in future reviews.

Performance

- The Fund's internal investment objective is to outperform the MSCI World Index ('the Benchmark') by 3% p.a. over rolling three-year periods (before fees). Lonsec is pleased the Manager aims for an excess return objective against a reference benchmark as a means of increasing accountability for and measuring performance outcomes. However it is worth noting the sector composition of the Fund's investment universe can be significantly different from that of the Benchmark, with the Fund tending to overweight in healthcare, industrials and materials.
- While the Fund has an inception date of 2007, the long-term track record of the Fund is associated with Hunter Hall Investment Management and less relevant. The WHEB Listed Equity Strategy was implemented in the Pengana WHEB Sustainable Impact Fund from 1 August 2017 with WHEB's appointment.
- Over the three years to 31 March 2021, the Fund returned 11.3% p.a. (after fees), underperforming the benchmark by 1.7% p.a., while also underperforming the thematic peer median by 1.8% p.a., falling short of its return objective. Return volatility was higher than the peer median at 14.1% p.a., with a deeper worst drawdown at -14.3%.
- The Fund performed better for the year to March 2021, returning 27.6% (after fees), outperforming the benchmark and the peer median by 3.8% and 2.5% respectively. Return volatility remained higher than the peer median, at 10.7% versus 8.4%. Top contributors to absolute return included positions in TPI Composites, Aptiv PLC and Advanced Drainage systems, while bottom contributors included Strategic Education, Premier Inc and Oprea. While noting significant sector and style divergences versus the Benchmark, Lonsec will continue to test the Manager's ability to meet its investment objective as well as the team's skill in stock selection and sell-discipline during future reviews.

Overall

- Lonsec has maintained the Fund's **'Highly Recommended'** rating. Lonsec believes the Fund's robust and extensive approach to sustainable impact investing to be the best-in-class. Of particular interest is the Manager's high level of transparency conveyed through the reporting of its engagement activities, portfolio holdings, investment decision-making and overall corporate governance. Unlike many competitors, Lonsec is pleased to observe that ESG factors are integral to the fabric of the firm and its investment philosophy.
- Lonsec is pleased with the business' continual expansion and dedication to the strategy, with rising and profitable level of funds under management, the addition of an Investment Analyst and the increased equity holdings by investment team members. However, the Fund's fee load is high and the team is lightly resourced albeit this is being progressively addressed. Lonsec also advises that as an ESG fund, the Fund may not be suitable for certain ethical investors seeking holistic avoidance of certain sensitive sectors.

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People and Resources

Corporate overview

WHEB is a specialist ESG investor focused on the opportunities created by the global transition to more sustainable, resource efficient and energy efficient economies. The firm is privately managed with three partners and the Chairman owning a combined 40% of the firm with the remainder allocated to an external investor (WHEB Group). The London-based firm operates a single global sustainability equity strategy. Pengana Capital Group is a listed equities manager founded in 2003 and based in Sydney. The Manager has over A\$3.5 billion in funds under management across equities and alternatives strategies as at December 2020. Pengana assumed ownership of the Fund following its merger with the previous investment manager, Hunter Hall International Ltd. Pengana Capital Group is an ASX listed entity (ASX: PCG).

Pengana appointed WHEB to manage the underlying assets of the Fund in August 2017. WHEB was formed in 2009 and managed approximately A\$2.1 billion in assets in its global sustainability equity strategy as at 31 March 2021.

Size and experience

NAME	POSITION	EXPERIENCE INDUSTRY / FIRM
GEORGE LATHAM*	CRO AND MANAGING PARTNER	24 / 8
TED FRANKS	PARTNER, LEAD PORTFOLIO MANAGER	15 / 12
SEB BELOE*	PARTNER, HEAD OF RESEARCH	25 / 8
TY LEE	ASSOCIATE FUND MANAGER	16 / 9
BEN KLUFTINGER	SENIOR ANALYST	21 / 5
CLAIRE JERVIS	INVESTMENT ANALYST	6 / <1

* Prior to joining WHEB, these investors formed part of the leadership team of Henderson Global Investors 'Industries of the Future' Fund, an earlier version of the current WHEB investment approach.

A five-person investment team is responsible for WHEB's thematic and company research process. This resource ultimately reports to George Latham, Managing Partner and CRO. Latham has 24 years' investment experience including eight years at WHEB. Much of Latham's experience has been gained directly within Responsible Investment strategies having occupied previous roles as head of Henderson Global Investor's SRI team and also in a consultant capacity in establishing Threadneedle's SRI capability. Latham's multifaceted role includes overseeing the investment process, chairing the investment and risk committee, and leading business development.

Ted Franks is a Partner and the Lead Portfolio Manager of the Fund bringing 15 years' responsible investment industry experience. Franks is a founder of the firm and has the longest tenure in WHEB's sustainable equities approach having been involved since launch in 2009. He is fully accountable for stock research, selection and fund positioning. Previous positions include sector analyst roles in the renewable energy and utilities sectors at both Dresdner Kleinwort and KPMG.

Seb Beloe is a Partner and Head of Research and responsible for the integration of sustainability analysis within the investment process and leading the firm's engagement activities. Joining WHEB in 2012, Beloe holds over two decades of investment experience, the bulk of which has been gained in the sustainability field. Previously Beloe was Head of SRI research at Henderson Global Investors where he worked alongside Latham.

The rest of the investment team consists of Senior Analyst Ben Klufftinger, Associate Fund Manager Ty Lee and Investment Analyst Claire Jervis. Lee joined WHEB in 2011 and has 16 years investment experience including previous roles at UOB Asia, Morgan Stanley and Accenture. While providing company research, Lee also assists Franks in his management of the Fund. Klufftinger joined the team in 2015 and prior to this was working at both Macquarie Equity Research and Citigroup Equity Research in Senior Analyst roles including coverage of both German small and mid-cap stocks and as a renewable energy specialist. Jervis had six years of investment experience before joining WHEB in 2021. Prior to joining WHEB, she worked at Barings as an Investment Specialist and ESG Champion covering Developed Equities, with a particular focus on Small Cap Equities.

An advisory committee also contributes to the strategy through ESG thematic input and risk oversight. The group meets quarterly to consider positioning and discuss sustainability trends and developments. The current members are:

- Geoff Hall, non-executive Chairman of WHEB;
- Mike Clark, consultant and former director of Responsible Investment at Russell;
- Kingsmill Bond, New Energy Strategist at Carbon Tracker;
- Ray Dhirani, Head of Sustainable Finance WWF; and
- Carole Ferguson, Head of Investment Research at CDP.

Remuneration

Remuneration comprises a base salary plus a discretionary bonus, determined by corporate and individual performance. For analysts, approximately 40% of the 'individual performance' component relates to performance of the strategy with the remainder reflecting a combination of factors including profitability of the parent organisation and qualitative factors. The Partners do not participate in the discretionary bonus scheme, and their incentive is based on their ownership of the business.

ANALYST: AMY LI | APPROVED BY: JAMES KIRK

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Research Approach

Overview

INVESTMENT STYLE	GARP
RESEARCH PHILOSOPHY	A COMBINATION OF BOTTOM-UP, FUNDAMENTAL RESEARCH WITH A TOP-DOWN / THEMATIC OVERLAY
TARGET COMPANY	A QUALITY, WELL MANAGED COMPANY WITH GOOD ESG PRACTICES, AND STRONG AND ENDURING GROWTH CHARACTERISTICS OPERATING IN A MARKET UNDERPINNED BY A LONG-TERM SUSTAINABILITY THEME THAT IS UNDERVALUED.
NO. STOCKS IN UNIVERSE	~1000
NO. STOCKS RESEARCHED	400
RESEARCH INPUTS	VARIOUS. THEMATIC RESEARCH. FUNDAMENTAL COMPANY RESEARCH, INCLUDING MANAGEMENT MEETINGS, FINANCIAL ANALYSIS, INDUSTRY RESEARCH, COMPETITOR ANALYSIS.
BROKER RESEARCH	LIMITED - USED TO CONSIDER ASSUMPTIONS AND CONCLUSIONS ONLY
VALUATION OVERVIEW	VARIOUS DEPENDING ON COMPANY AND SECTOR EG. BOOK VALUE, RELATIVE P/E

Universe filtering

For inclusion into the initial universe, the Manager first screens main board listed companies with at least 50% of their revenue and profit generated by their activities within the Manager's nine identified sustainability themes. Companies will fall into either an environmental theme (cleaner energy, environmental services, resource efficiency, sustainable transport, and water management) or social (education, health, well-being and safety). The themes represent investment opportunities the Manager expects will grow more quickly than the market due to structural trends in the global economy.

The Manager also excludes companies with a market cap of less than \$200 million. This reduces the universe to approximately 1000 stocks for consideration.

Research process

The team conducts sub-sector research to explore areas within the overarching themes more fully and compare identified companies for their relative attractiveness. Examples include Chinese wind farms, Japanese industrial automation, the testing and inspection industry and vehicle light-weighting. While increasingly a smaller part of the team's investment process, thematic reviews are detailed with analysts incorporating various inputs including company reports, industry reports, NGO reports, government and regulatory policies, and media reports.

Analysts also undertake quantitative analysis at this point to determine the relative 'quality' of the companies including earnings and profitability analysis, debt positioning and ESG attributes.

Stocks that the Manager decides have potential to outperform on a three-to-six year view undergo fundamental analysis. At this stage, analysts will conduct integrated ESG and financial analysis across the following areas:

- market attractiveness: eg. relative market growth, barriers to entry;
- competitive position: company market share, market fragmentation or concentration;

- value chain analysis: companies buying power, its relationship with its suppliers and buyers;
- growth strategy: organic or M&A opportunities, achievability of targets; and
- quality of management: historical track record, risk monitoring, governance and ownership structure.

Analysts consider the information gathered on the areas above to assign a qualitative score for each company between zero (negative view) and ten (strongly positive view). The total score (from a possible maximum of 50) is combined by the analysts to form a percentage score which reflects a company's business strength, its quality (both sustainable and financial) and its market position. These rankings are then considered by the investment team for investment provided the accompanying valuation is deemed acceptable for the stock's relative quality. Companies scoring a zero on any single metric are excluded from investment. Analysts further assign an A, B or C rating on portfolio holdings, depending on their conviction in the company and investment opportunity.

Each stock in the portfolio and on the watch list is assigned a lead analyst. The Manager seeks to rotate lead analyst responsibilities on each stock every 18 months. By nature of this discipline a stock held over say a five-year period is likely to have been covered by all members of the investment team.

Portfolio Construction

Overview

FUND BENCHMARK	MSCI WORLD TR NET AUD UNHEDGED
RETURN OBJECTIVE (INTERNAL)	3% P.A. ABOVE BENCHMARK OVER ROLLING THREE YEARS
RISK OBJECTIVE (INTERNAL)	TRACKING ERROR (4-7% P.A.)
PORTFOLIO DECISIONS	LEAD PORTFOLIO MANAGER
STOCK SELECTION	BOTTOM-UP
TOP-DOWN INFLUENCE	SUSTAINABILITY THEMATIC OVERLAY. SEEK REGIONAL NEUTRALITY.
TYPICAL NUMBER OF HOLDINGS	40-60
MARKET CAPITALISATION BIAS	SMALL / MID
EMERGING MARKETS EXPOSURE	GENERALLY NIL (MAX 3%)
EXPECTED PORTFOLIO TURNOVER	20% P.A.
OBSERVED ACTIVE SHARE	>95%
% OF PORTFOLIO IN TOP 10 HOLDINGS	29% (31 MARCH 2021)

Decision making

Within an intentionally consensus-driven framework, Lead Portfolio Manager Franks, is ultimately accountable for stock selection and portfolio construction drawing on the conviction of the analysts ideas. The Fund typically holds 40-60 stocks and seeks to maintain regional neutrality and therefore, may source investment ideas within a particular region (eg. North America or Japan) to maintain the regional balance of the portfolio.

Formal investment team meetings are held at least weekly to discuss existing holdings and possible new research opportunities. The team will also discuss portfolio positioning, performance and risk characteristics which may initiate trading or rebalancing decisions.

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Position sizing is driven largely by the Portfolio Managers' consideration of a stock's thesis, analyst conviction and valuation, subject to the strategy's constraints. A-rated stocks are the highest conviction in the portfolio and will typically have a portfolio weighting of around 2.5%. B-rated stocks are held in a banding around 1.8%, and C-rated stocks are closer to 1.2%. Thus, the portfolio is skewed towards A and B-rated holdings.

The Fund has a bias to small and mid-cap stocks relative to its benchmark. The thematic approach results in a structural underweight or absence from certain sectors such as financials and energy, and a structural overweight in sectors such as healthcare and industrials.

Sell decision

Sell decisions are also consensus driven with a variety of factors triggering stock trimming or entire disposal of holdings. These include factors such as a change in fundamental view on the stock's attractiveness, the emergence of new information, deterioration in ESG assessment, or an undesirable change in valuation. The Manager's predisposition for longterm investments means sell decisions are rarely automatic. Rather, the factors will be considered as to whether it is likely to elicit a short-term correction, potentially offering a buying opportunity, or whether it is sufficiently damaging to the companies longer term prospects to warrant exit.

Risk Management

Risk limits

SEPARATE RISK MONITORING	YES
STOCK LIMIT	MAXIMUM 5% (HARD)
SECTOR LIMITS	NO LIMITS
EXPOSURE TO SINGLE THEME	MAXIMUM 30%
REGIONAL LIMITS (E.G. NORTH AMERICA)	KEPT CLOSE TO THE AVERAGE OF THE MSCI WORLD INDEX, MSCI WORLD MID-CAP AND WHEB INVESTABLE UNIVERSE
MINIMUM MARKET CAPITALISATION	>US\$200M
CASH LIMIT	MAXIMUM 5%

The Fund applies a standard range of risk constraints limiting over-exposure to a single stock, investment theme or region. Moreover, risk assessment is embedded in the firm's investment approach with appropriate operational guidelines and policies.

Risk monitoring

The investment team is responsible for monitoring the portfolio on a day-to-day basis. The investment team meets monthly with the Investment and Risk Committee to review portfolio risk material. Factors monitored include tracking error, beta, stock level attribution, benchmark relativity, scenario analysis under various stress environments, liquidity, valuation, leverage, growth and ESG. The Committee also has oversight in monitoring compliance and business risk.

Risks

An investment in the Fund carries a number of standard investment risks associated with domestic and international investment markets. These include economic, political, legal, tax and regulatory risks. These and other risks are outlined in the PDS and should be read in full and understood by investors. Lonsec considers the major risk to be:

Currency risk

The Fund predominantly invests in assets that are denominated in non-A\$ currencies. A rise in the relative value of the A\$ vis-à-vis the currencies in which the assets are denominated will negatively impact the market value of the assets (and vice versa) from an Australian investor's perspective. The Manager does not hedge the Fund's currency exposures.

Market risk

Investments in equity markets are subject to numerous factors which may have an impact on the performance of an investment (both positive and negative). Unexpected changes in economic, technological, structural, regulatory or political conditions can have an impact on the returns of all investments within a particular market. Further, the Fund has a bias towards investing in small and mid-cap companies. Companies with smaller market capitalisations generally have greater market risk (i.e. Beta). Accordingly, investors should be mindful of the potential for sharper movements in market price of these investments.

Liquidity risk

In some cases, global equities may present low liquidity in particular regions relative to 'deep' markets like US. Emerging markets and small cap stocks may display low liquidity due to low volume and fewer market participants compared to the major bourses of developed markets.

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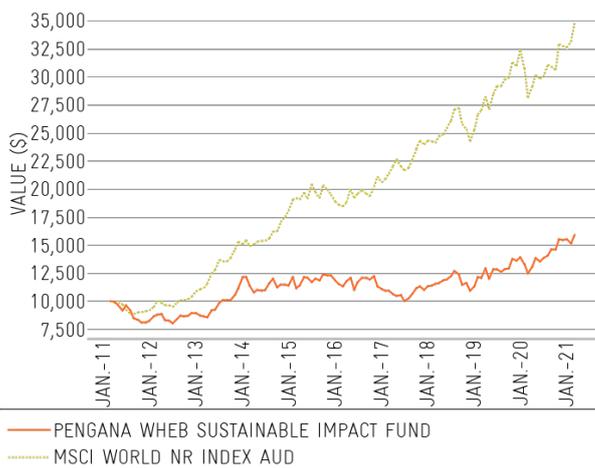
Quantitative Performance Analysis - annualised after-fee % returns (at 31-3-2021)

Performance metrics

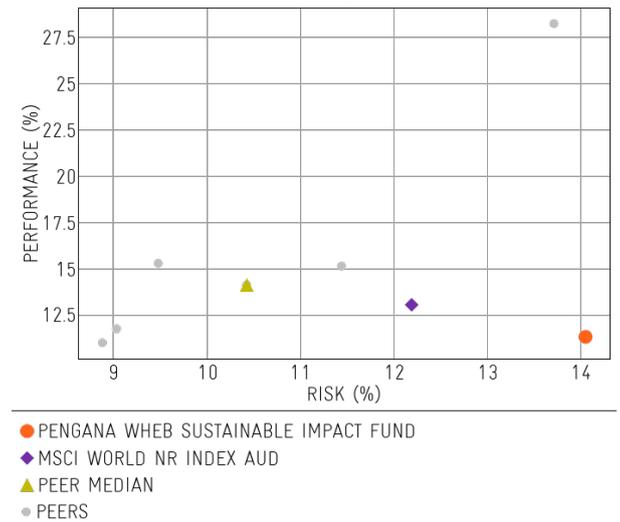
	1 YR		3 YR		5 YR		10 YR	
	FUND	PEER MEDIAN	FUND	PEER MEDIAN	FUND	PEER MEDIAN	FUND	PEER MEDIAN
PERFORMANCE (% PA)	27.63	25.13	11.35	14.15	7.03	13.43	4.78	12.29
STANDARD DEVIATION (% PA)	10.71	8.39	14.05	10.43	13.50	9.83	13.44	10.07
EXCESS RETURN (% PA)	3.85	1.24	-1.73	1.81	-6.55	-0.01	-8.52	-0.71
OUTPERFORMANCE RATIO (% PA)	58.33	58.33	50.00	55.56	48.33	50.00	43.33	48.75
WORST DRAWDOWN (%)	-2.33	-1.73	-14.30	-9.29	-17.74	-9.05	-19.54	-11.81
TIME TO RECOVERY (MTHS)	1	1	4	5	12	4	13	10
SHARPE RATIO	2.57	3.22	0.73	1.23	0.42	1.25	0.18	1.02
INFORMATION RATIO	0.52	0.21	-0.26	0.44	-0.72	0.02	-0.77	-0.19
TRACKING ERROR (% PA)	7.44	7.58	6.75	6.75	9.16	6.51	11.10	5.44

PRODUCT: PENGANA WHEB SUSTAINABLE IMPACT FUND
 LONSEC PEER GROUP: GLOBAL EQUITIES - GLOBAL LARGE CAP - FUNDAMENTAL THEMATIC
 PRODUCT BENCHMARK: MSCI WORLD NR INDEX AUD
 CASH BENCHMARK: BLOOMBERG AUSBOND BANK BILL INDEX AUD
 TIME TO RECOVERY: NR - NOT RECOVERED, DASH - NO DRAWDOWN DURING PERIOD

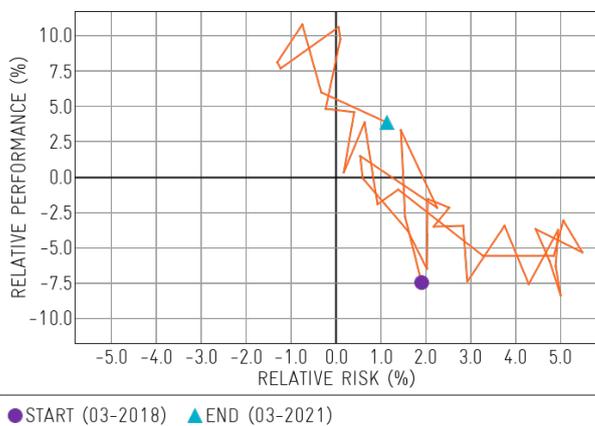
Growth of \$10,000 over 10 years



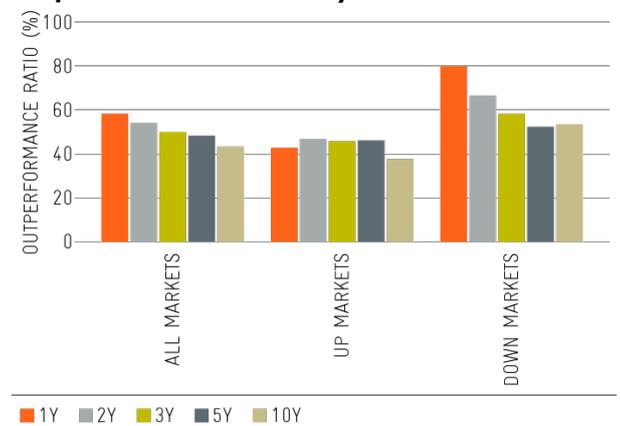
Risk-return chart over three years



Snail trail



Outperformance consistency



ANALYST: AMY LI | APPROVED BY: JAMES KIRK

Pengana WHEB Sustainable Impact Fund

Glossary

Total return 'Top line' actual return, after fees
Excess return Return in excess of the benchmark return
Standard deviation Volatility of monthly Absolute Returns
Tracking error Volatility of monthly Excess Returns against the benchmark (the Standard Deviation of monthly Excess Returns)
Sharpe ratio Absolute reward for absolute risk taken (outperformance of the risk free return (Bank Bills) / Standard Deviation)
Information ratio Relative reward for relative risk taken (Excess Returns / Tracking Error)
Worst drawdown The worst cumulative loss ('peak to trough') experienced over the period assessed
Time to recovery The number of months taken to recover the Worst Drawdown
Snail Trail A trailing 12-month relative performance and relative risk measurement over the benchmark. The trail is generated using a 12-month rolling window over the specified period

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