INSIGHTS

Q1 2019 REPORT

Pengana WHEB Sustainable Impact Fund

PENGANA CAPITAL GROUP
HEAD OFFICE

Level 12, 167 Macquarie St
Sydney

T: +61 2 8524 9900
pengana.com

TABLE OF CONTENTS

DEFENDING ESG: HOTDOGS VS ICE CREAM

Observations from Kraft Heinz's attempted takeover of Unilever

The WHEB Listed Equity Strategy is an impact strategy. Our focus is the way companies influence the world. The most important of those ways is in the products or services they sell.

At the same time, we are very interested in the way companies deliver those products or services. This includes how they interact with all the parts of their value chain. These interactions are often termed "Environmental, Social and Governance" (or "ESG") factors.

We are committed users of ESG analysis because we think it provides invaluable information. It helps us to assess management quality and appraise the risks the company is taking. Simply put, thoughtful management teams with a long-term approach will think about all of their stakeholders. Those are the companies we want to back.

A battle of the time horizons

This quarter provided a real-life parable about the value of this approach. It was a neat contrast between two enormous companies that are very familiar in everyday life. The two companies are Kraft Heinz, and Unilever.

To declare our position upfront, WHEB wouldn't actually invest in either. Both of these companies sell consumer staples: household products, and packaged food. Neither of those categories solve a sustainability challenge. Indeed, some of their brands contribute to unhealthy lifestyles. I'm looking at you, Oscar Mayer hotdogs (Kraft), and you, Ben and Jerry's ice cream (Unilever).

Not a positive impact stock, but Unilever is an ESG leader

But if we were forced to choose between the two, we know which one we'd prefer. Unilever is a watchword for leadership on corporate ESG issues. From 2009 to the end of last year, it had a genuinely visionary CEO called Paul Polman. He is certainly thoughtful: he considered being a priest and a doctor, before beginning his business career. He then had a deeply formative experience when he was caught up in the Mumbai terrorist attacks of 2008.

Taking control of Unilever shortly afterwards, his vision was clear. Unilever has built its business around its Sustainable Living Plan. This has three major pillars: improving health and wellbeing, halving its environmental impact, and enhancing livelihoods. More prosaically, it also means working hard on evolving with their consumers and investing for long term growth.

Kraft Heinz: a different approach

Kraft Heinz is about as far apart from this mindset as two companies can be. Heinz was acquired in 2013 by Berkshire Hathaway and Brazilian private equity firm 3G Capital. Berkshire Hathaway is the umbrella firm for investing legend Warren Buffett, a man more naturally inclined to think about the long term. But 3G, led by his friend Jorge Paulo Lemann, is quite different. They have a reputation for ruthless cost-cutting - using a system called "zero-based budgeting" – and stripping out layers of management.

This approach quickly improves margins. 3G achieved some notable success with its earlier investments, including Burger King. But as time passes, the downside of such ruthless cost cutting becomes clear. 3G's companies have struggled for growth and innovation. One solution in this era of cheap debt finance is to keep buying other companies to create growth. Following this logic, Heinz was combined with Kraft in July 2015.

This combination worked for a while, as the costs were extracted from the combined entity. But less than two years later, with growth slowing, they needed to do it again. And this time, they went for an even bigger target: Unilever.

The cost-cutter's bid

When the bid was made in February 2017, Unilever had nearly twice the revenues of Kraft Heinz. But the latter's better margins, and hubris around their deal-making, meant their valuations weren't far apart. To finance the deal, Kraft Heinz planned to borrow enough to put their investment grade ratings at risk. They would pay this down with the cash generated from shredding the Unilever cost base. Wall Street was of course enthusiastic, with the majority of Kraft Heinz's analysts supporting the deal.

But Polman and Unilever fought back. He made the case for the long-term value creation of the Unilever model, and for an ESG approach. In his words, in a later interview: "… our model is of compounded long-term value creation. The cultures were different. We are really talking about a clash of two different philosophies and two different economic models – a clash between a few billionaires and the billions of people that we serve".[1] Despite the bid premium, the board supported his strategy.

A victory for the angels

Mr Polman retired from Unilever at the start of 2019. But he has been very thoroughly vindicated. Unable to grow, the firm that wanted to dismantle his vision has floundered. In the middle of this quarter, on 22 February, Kraft Heinz shares fell 28% as it announced more lacklustre results, an SEC investigation of its accounting, and a $15.4bn write-down on its brands.

As bad as that one day move was, it was just a bigger step in a disastrous longer trend. Since announcing the bid for Unilever, Kraft Heinz has dropped 62.9% while the MSCI World Index has grown 22.1%. And Unilever has beaten the index, growing 26.4%.[2]

In other words, the company Kraft Heinz were so sure they could improve, has outperformed them by nearly 90%. As a lesson in the importance of long-term value creation, it is hard to beat.

---

[1] https://www.ft.com/content/2209d63a-d6ae-11e7-8c9a-d9c0a5c8d5c9

[2] Market data sourced from Bloomberg, WHEB analysis

THEMATIC TRENDS IN FOCUS

Measuring portfolio ESG performance

The past few years have seen a very welcome increase in demand for investment products which seek to integrate Environmental, Social and Governance (ESG) factors into investment decision-making. These ESG issues are typically understood as ***how*** a company operates rather than necessarily ***what*** products and services it sells. In contrast, the WHEB investment strategy is primarily focused on identifying and investing in companies that deliver positive ***impact*** through the products and services that they sell. In addition, however, we also integrate ESG issues into the fundamental analysis that we conduct on individual stocks.

In response to the growing demand for 'ESG integrated' investment products, a wide range of tools and frameworks have been developed. These are intended to help investors assess how successful fund managers have been in addressing the full range of ESG and impact issues in their strategies. We recently had the WHEB Listed Equity Strategy assessed through the framework developed by Impact Cubed.[3]

Impact Cubed

The Impact Cubed methodology is focused on 10 factors covering a broad range of uncorrelated environmental, social and governance (ESG) issues. There are also four additional factors that cover the social and environmental impact of the products and services sold by companies. Critically, in our view, the metrics that are used in each factor are based on quantitative performance data rather than on policies or programmes in place at portfolio companies. We believe that this provides a more objective measure of current performance on each of the 14 factors. Where data is not available, the metrics are based on estimations generated by Impact Cubed from proprietary estimation models. Figure 1 below shows the actual metrics that are used for each of the 14 factors.

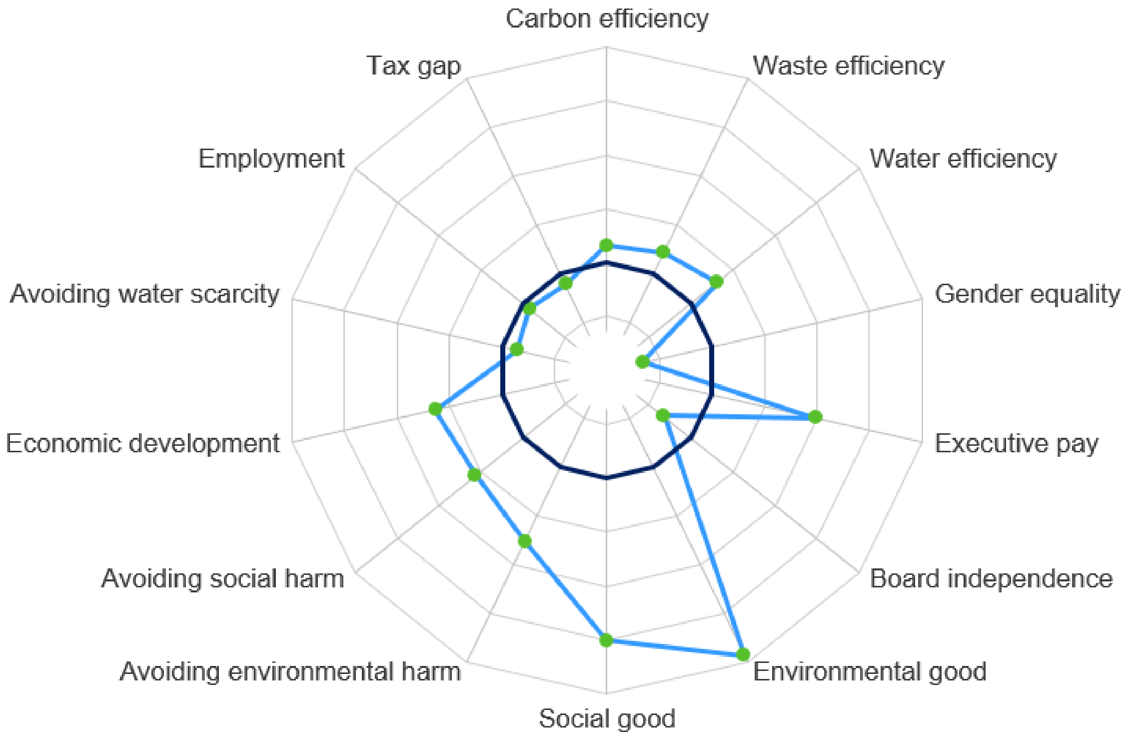
Figure 1: Impact Cubed factor metrics

Factor	Metric
Carbon efficiency	tCO_2e (Scope 1&2) per unit of revenue
Waste efficiency	Tons waste per unit of revenue
Water efficiency	Litres of fresh water per unit of revenue
Gender equality	% of women on boards and senior management
Executive pay	Ratio of executive level pay to median employee pay
Board independence	% of independent Board members
Environmental good	% of portfolio in environmental solutions
Social good	% portfolio in solutions to social issues
Avoiding environmental harm	% portfolio in environmentally destructive industries
Avoiding social harm	% portfolio in industries aggravating social issues
Economic development	Median income of portfolio weighted geography of economic activity
Avoiding water scarcity	Geographic water use[4]
Employment	% unemployment in portfolio weighted area of economic activity
Tax gap	Estimated % tax avoided by corporate tax mitigation scheme

[3] https://www.impact-cubed.com/
[4] Based on World Resources Institute scale of 0-5 (most to least water scarce)

The spider diagram in Figure 2 below summarises the performance of the WHEB Listed Equity Strategy across all fourteen factors relative to the MSCI World Index benchmark.

Figure 2: Impact Cubed spider diagram of the WHEB Listed Equity Strategy



N.B. The dark line in Figure 2 represents the performance of the MSCI World while the light blue line shows the performance of the WHEB Listed Equity Strategy. The actual measures are based on standard deviations of each measure away from the benchmark.

Product and service impacts

Of fourteen factors considered in the model, two; 'Social Good' and 'Environmental Good' are based on the positive impact of the products and services provided by portfolio companies. As we would expect, the portfolio's performance is very strong on these dimensions. In addition, the portfolio's performance is also well-above average on products and services that avoid social and environmental harm ('Avoiding social harm' and 'Avoiding environmental harm'). In fact, no portfolio holdings have exposure to activities that are classified as causing environmental harm and only one company has exposure to products that are considered to cause social harm. This company, MSA Safety, make a variety of products used by firefighters such as self-contained breathing apparatus. It also makes protective hard hats, some of which are used by the military which is why these products are recorded in this category.

ESG performance

Of the ten factors that cover ESG performance, most of these are either significantly ahead of the benchmark index ('Economic development', 'Executive pay'), ahead of the index ('Carbon efficiency', 'Waste efficiency', 'Water efficiency') or marginally behind ('Avoiding water scarcity', 'Employment', 'Tax Gap').

Categories where the fund is ahead of the index are generally significantly ahead of the index – to a greater extent than is suggested in the spider diagram. For example, according to the Impact Cubed analysis the Carbon efficiency of the fund is 0.10 tCO_2e per unit of revenue compared with 0.19 tCO_2e per unit of revenue for the MSCI World Index. Similarly waste and water efficiency are 0.01t and 2.35 litres per unit of revenue respectively for the fund compared with 0.61t and 9.03 litres of fresh water for the index.

Marginally behind areas are very close to index performance. This includes a Tax gap of 4.13% of tax avoided through tax mitigation schemes for the fund compared with 3.96% for the index. 5.8% of portfolio company employees are located in areas of high unemployment. This compares with 5.9% for the index.

Gender equality and board independence

There are, however, two factors where WHEB's strategy performs poorly compared to the index. On average, only 73% of the Board Directors at portfolio companies are independent compared with 76% of the Board Directors on MSCI World Index companies. We believe that this is largely due to the strategy being more focused on mid-sized businesses which more often have large founder or strategic shareholders with Board Director representation. This reduces the proportion of independent board directors.

The other area of this analysis that was shown to be significantly behind the benchmark was on the portfolio's performance on gender equality. The Boards and senior management at companies in the WHEB strategy are on average 19% female. This compares with 21.5% at companies in the MSCI World Index. As we reported in our 2017 report, we are aware of the strategy's poor profile on this indicator. This, we believe, is in part due to the strategy's overweight position in technology and engineering businesses and underweight position in consumer goods businesses relative to the index. Nonetheless, during 2018 we engaged with several businesses in the portfolio to encourage greater diversity at board and senior management levels. This engagement has generated some successes but much more remains to be done. Gender equality remains a priority issue for our engagement programme in 2019 (see below).

ENGAGEMENT ACTIVITY

Progress on gender diversity but the issue remains a priority in 2019

As we related in our Impact report covering 2017, the gender diversity of Board Directors and senior executives at portfolio companies within the WHEB Listed Equity Strategy is worse than that of companies within the fund's benchmark MSCI World Index. This finding was underlined by the new analysis provided by Impact Cubed on the overall ESG profile of the strategy discussed above.

The very different sector exposures of the WHEB strategy compared to the MSCI World are likely to explain much of the difference with sectors such as Financials and Retail typically having a higher proportion of female directors than Industrials and Healthcare.[5] Nonetheless, we fundamentally believe that more diverse boards deliver better governance for companies and we are committed to engaging with portfolio companies to improve gender diversity throughout their organisations, including at Board level.

Reviewing the whole portfolio reveals some interesting further insights. Of the 58 stocks in the portfolio at the start of the quarter, nearly 80% have less than 25% female Board directors and 60% less than 20%. There are some geographic influences as well. All five of our Japanese holdings have less than 15% of their Boards as female. Two (**Daifuku** and **Keyence**) have no female Board Directors at all.

[5] For example see https://www.pwc.com/us/en/governance-insights-center/assets/pwc-board-composition-trends-by-industry-main-report.pdf

Company engagement on gender diversity

Gender diversity has been an issue that we have engaged portfolio holdings on for several years. This engagement has borne some fruit with several portfolio companies improving gender diversity, though generally this has been insufficient. One such company was **Smurfit Kappa**. We have voted against the reappointment of the Chairperson of the Nomination Committee for the past two years. On each occasion we have also written to the company to explain that our reason for voting against his reappointment is because of the poor gender diversity on the Board which at the time included just 17% of female directors. We have also raised the issue in person with the company on the regular occasions that we have met with management. At the Annual General Meeting in 2018 the company did appoint a second female Director and announced a third female Director at the beginning of January 2019. Also, at the end of October 2018, the company announced the retirement of the Chairman meaning that the Board has gone from 17% to 25% female. This change is due to be confirmed at the next Annual General Meeting on 3rd May 2019.

We have seen similar progress at **Johnson Controls International**, another portfolio company. At their Annual General Meeting in March 2019 they appointed a third female director, bringing the total proportion of women on the Board to 25% from 18% previously.

During the first quarter of 2019 we have also had the opportunity to vote against the Chair of the Nominations Committee at **Centene Corporation** (11% of Board Directors are female), **Cooper Companies** (22% female) and **TE Connectivity** (14% female) and wrote to **JB Hunt Transport** Services to encourage them to improve the current gender diversity on their Board (currently 20%).

Plans for 2019

We will continue to make gender diversity a priority for our company engagement and hope to be able to report substantially improved figures for the portfolio as a whole in our impact report next year. We already vote against the Nomination Committee Chairman at companies where the proportion of women is less than 25% of the Board[6] and where this is an option on the ballot. In addition, we will be writing to companies where women make up less than 25% of Board Directors where we are unable to make our views on gender diversity clear through voting of our shares.

Energy efficient air conditioning at Daikin Industries

We purchased shares in **Daikin Industries** in the summer of 2018. The company sits in our Resource Efficiency theme on the basis that its technology and product portfolio offer better energy efficiency standards than other operators in the market. We are also conscious of the accelerating demand for Air Conditioning systems (AC) in large parts of the world, in part due to greater wealth, but also because of increasing average temperatures driven by climate change. However, air conditioning is very power hungry and while Daikin is recognised as developing the most efficient air conditioning systems in these markets, every additional unit adds to overall power demand.

We shared this dilemma with WHEB's Investment Advisory Committee who discussed it at length at the committee meeting in October 2018.[7]

---

[6] We have been progressively phasing in this policy across different geographies and will be applying it globally from this year.
[7] The summary minutes are available at: http://www.whebgroup.com/media/2018/11/20181017-Summary-minutes-final.pdf

Engagement with Daikin

Daikin has built an impressive position in the market for high efficiency AC systems. Approximately half of the company's sales are of AC systems that use at least 30% less energy than conventional products and use refrigerants that have a global warming potential that is at least two-thirds lower than conventional refrigerants. A further 36% of products have either the higher efficiency or the lower impact refrigerant. Nonetheless, given the rapid increase in the amount of AC systems that is anticipated over the coming years, it is critical that Daikin and other AC suppliers develop even more efficient technologies.

We wrote to the company in mid-February to understand their approach to these issues in more detail. The company has provided some additional detail following this engagement. Their long-term vision is to reduce CO_2 emissions from both the company's operations and products and services to zero by 2050. The basis for their action is a report from the International Energy Agency which, based on a business-as-usual scenario, forecasts a doubling of CO_2 emissions for space cooling by 2050 (from 2016 levels).[8] The increase in emissions from 2016 is offset by more efficient AC systems and the use of decarbonised power. This will bring global emissions from space cooling down from approximately 1,100 $MtCO_2e$ in 2016 to less than 150 $MtCO_2e$ in 2050 with each of these improvements contributing approximately half of the reduction.

While Daikin appears well-positioned to enable and benefit from the transition to more efficient AC systems, we are keen to explore how the company will deliver the further improvements that the IEA envisage in their scenario. The company has so far been unwilling to share this further detail with us. They did however confirm that they intend to participate in the Global Cooling Prize, an initiative that the Government of India is leading to develop a new cooling technology that has at least a 5x lower climate impact, is affordable and has limited wider environmental impacts.[9]

[8] https://webstore.iea.org/download/direct/1036?fileName=The_Future_of_Cooling.pdf
[9] https://globalcoolingprize.org/

Collaborative investor engagement

Access to medicines initiative

During the quarter we agreed to sign the Investor Statement supporting the Access to Medicines (AtM) Index. Much of the work of AtM is focused on the branded pharmaceutical drug manufacturers. However, the scope of their work was expanded in 2018 to include a wider set of issues including antimicrobial resistance (AMR) and access to vaccines. While the WHEB strategy has no investments in the major branded drugs manufacturers, we do invest in **Fresenius SE** which, through its subsidiary Kabi, is a major manufacturer of generic drugs. We also invest in **CSL** which owns a significant vaccine manufacturing business.

The Investor Statement sets out our belief in the importance of environmental, social and governance (ESG) issues in the long-term health of the healthcare industry[10]. It also underlines our support for the work that the AtM does to develop well-researched analytical and ranking methodologies for assessing companies with exposure to branded and generic drugs. Fresenius SE was ranked as one of the top three generic drugs manufacturers in the AtM's first report on Antimicrobial Drug Resistance[11]. However, the report identified a number of areas where improvements could be made. We have begun talking to the company about this analysis and hope to make further progress with this engagement alongside other investors in the coming year.

---

[10] The investor statement is available at https://accesstomedicinefoundation.org/media/uploads/downloads/5bf57f6f67611_181121%20ATM_InvestorsStatement_opm16.pdf

[11] The Antimicrobial Resistance Benchmark is available at: https://accesstomedicinefoundation.org/media/uploads/downloads/5c46f0d1cbefe_Antimicrobial-Resistance-Benchmark-2018.pdf

PERFORMANCE COMMENTARY

In contrast to the previous quarter, more cyclical themes outperformed the more defensive parts of the portfolio. This reflects a recovery in global stock markets following the sell off towards the end of 2018. Optimism around a US China trade agreement grew in January and February, but progress seems to have slowed more recently. The Fed's dovish turn also gave markets a boost, although the inversion of the US yield curve during the period is seen by some as indicative of recession ahead.

The Pengana WHEB Sustainable Impact Fund's absolute performance over the first quarter was up +10.9%. It underperformed its benchmark MSCI World Index by -0.5%.

The three best performing themes were Environmental Services, Resource Efficiency and Cleaner Energy.

Siemens Gamesa, the world's second largest wind turbine manufacturer, was a positive contributor for the Cleaner Energy theme, having reported strong order growth and stable prices.

Horiba was the best performing portfolio holding over the last 3 months. Horiba is in our Environmental Services theme, but it also has exposure to several of our other themes. Its relevance to Environmental Services is because it contributes to environmental protection through its testing products, such as radiation monitors, and gas and water quality analysers.

Resource Efficiency was the other strong theme. Four of the top ten performing stocks this quarter are in this theme: **Ansys**, **Roper Technologies**, **A.O Smith** and **IPG Photonics**. Roper Technologies, another stock with exposure to multiple sustainability themes, performed well after reporting strong results. We classify it within Resource Efficiency because its energy systems and controls products improve efficiency in industrial processes.

Another positive contribution came from **WABCO**, in our Safety theme. WABCO provides leading braking technologies to the automotive industry. The outperformance resulted from larger rival, ZF Group, making a takeover bid for the company. We have now sold our position as a result of the acquisition.

Weaker relative performance came from the Wellbeing, Health and Sustainable Transport themes. **Nautilus** and **Tivity Health** were among the poorest performers. Both stocks are smaller companies in the fitness market. Our Wellbeing theme is underpinned by our belief that over the long term, people will become increasingly health conscious and will exercise more to improve fitness and wellbeing. This will be a personal choice but is also supported by the providers of healthcare, who are increasingly interested in preventative care.

Nautilus makes gym equipment and the launch of its new artificial intelligence training platform, Max Intelligence, failed to meet market expectations in an increasingly competitive market. We have lost confidence in the longer-term outlook for the company and decided to sell. **Tivity Health**, which runs exercise programmes for the elderly and therefore reduces their insurance premiums, has struggled this quarter. The market reacted badly to the announcement that they will be acquiring Nutrisystem, a provider of scientifically-designed meal deliveries. We think the combination of Tivity and Nutrisystem could create an important company in the US preventative care market.

Our Health theme's negative contribution was driven by the underperformance of **Centene**, **CVS** and **Premier**. President Trump's renewed attempts to repeal the Affordable Care Act has impacted Centene as it specialises in providing low cost insurance for poorer people. The market's reaction to their acquisition of rival Wellcare was also disappointing. This acquisition was a blow to another portfolio holding, CVS, which was the worst performing position this quarter. CVS currently provides services to Wellcare to keep drug costs down, however Centene manages this themselves and is likely to bring those services to Wellcare in-house.

The Sustainable Transport theme also performed poorly this quarter. **Norma**, which sells connecting systems for use in cars primarily and is an enabler of electric vehicles, disappointed investors after pointing towards significantly lower organic revenue growth in 2019 compared to 2018. We still believe Norma is a leader in supplying energy efficient automotive parts and we remain optimistic for the stock over the longer term.

The last month of the quarter was notable for the inversion of the US yield curve, which has been a very reliable predictor of recessions. With a potential economic downturn on the horizon, we maintain our view that sustainability will be a driver of outperformance over the longer term.

PORTFOLIO ACTIVITY

We sold three positions in the quarter and initiated one new holding.

We sold **Nautilus**, a maker of gym equipment, in our Wellbeing theme. Exercise is a key component of preventative healthcare and Nautilus's products are popular with a wide range of users. The market is evolving rapidly, and digital functionality is increasingly important. Nautilus mistimed the introduction of some key new products and lost competitive positioning as a result, so we sold our position.

We also ended a nearly seven-years-long investment in **Stantec**, a Canadian consulting engineer. Climate change adaptation should provide a good growth opportunity for engineering firms but Stantec fell behind peers in capturing that growth. It also mishandled an otherwise shrewd acquisition of a leading company in the water infrastructure market. We have lost faith in management's strategic vision so closed our position.

We also sadly closed our position in **Lenzing**, the Austrian maker of sustainable fibres for use in the fashion industry. We really like the company and were impressed with its transition from a commodity chemical player to a more specialty-focused business. However, Lenzing will not be able to expand its capacity in its specialty businesses for a number of years. In the meantime, we're not sure that its capital allocation strategy makes sense. We've sold our position but will continue to monitor it closely.

The new position we added was **ICU Medical**, a US maker of infusion equipment. A transformative acquisition in early 2017 has given ICU an enviable competitive position. ICUs markets should grow steadily and there is a real margin expansion opportunity.

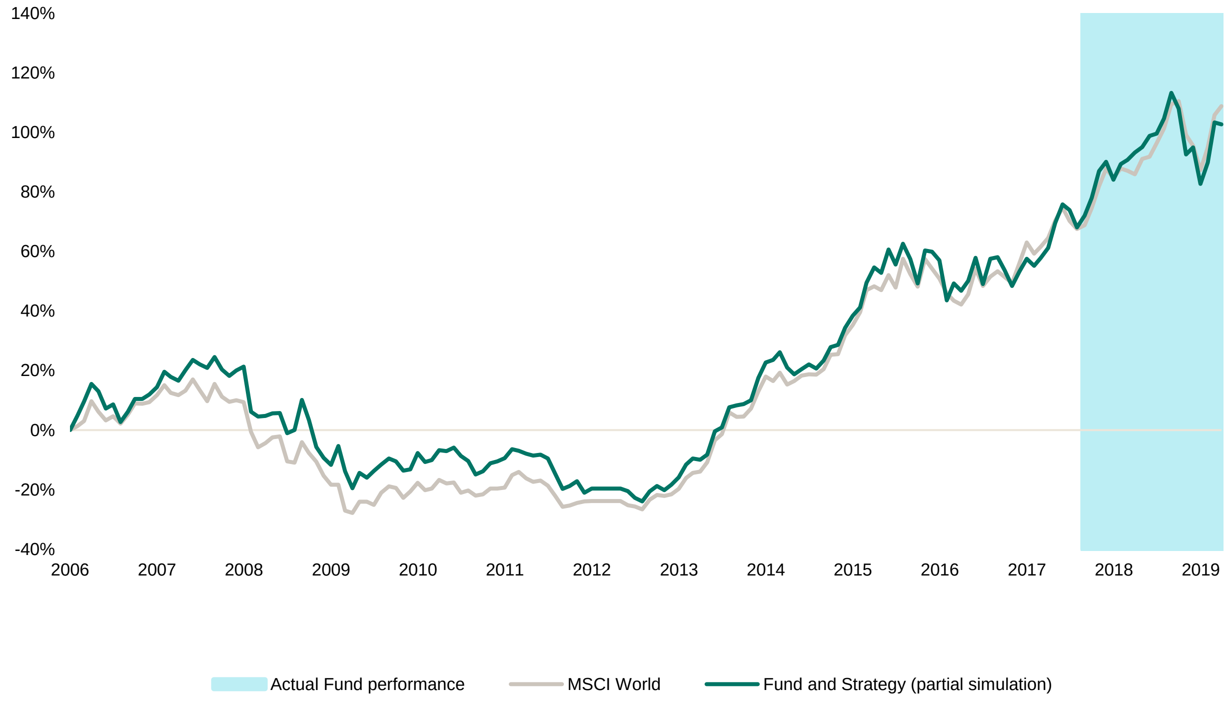
INVESTMENT PERFORMANCE

Cumulative Investment Returns

Net performance (%) for periods ending 31 March 2019

	1 mth	1 yr	3 yrs p.a.	5 yrs p.a.	Since inception p.a.
Fund	-0.3	4.9			
Strategy (partial simulation)[12]			11.4	10.9	5.5
MSCI World[13]	1.5	12.3	13.7	12.6	5.7

Performance Since Strategy Inception

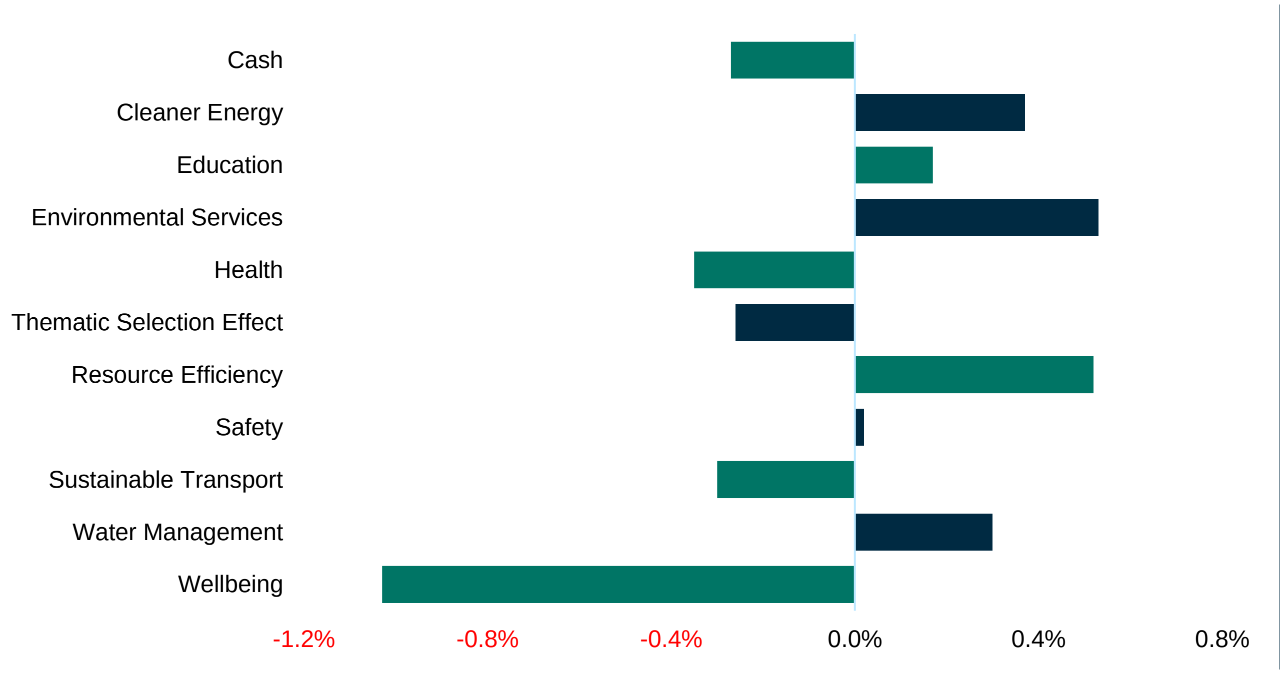


[12] From August 2017, performance figures are those of the Pengana WHEB Sustainable Impact Fund's class A units (net of fees and including reinvestment of distributions). The strategy's AUD performance between January 2006 and July 2017 has been simulated by Pengana from the monthly net GBP returns 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. Past performance is not a reliable indicator of future performance. The value of the investment can go up or down.

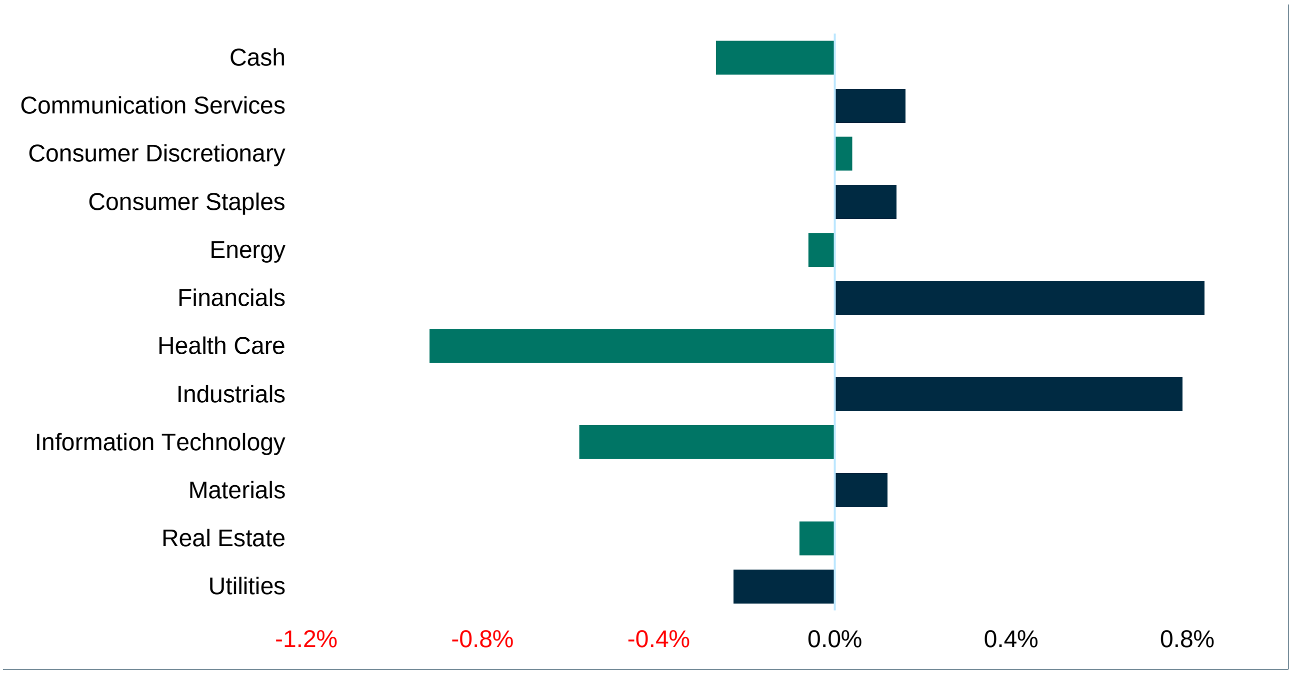
[13] MSCI World Total Return Index (net, AUD unhedged).

Performance Attribution – Last 3 Months[14]

Attribution by Sustainability Theme[15]

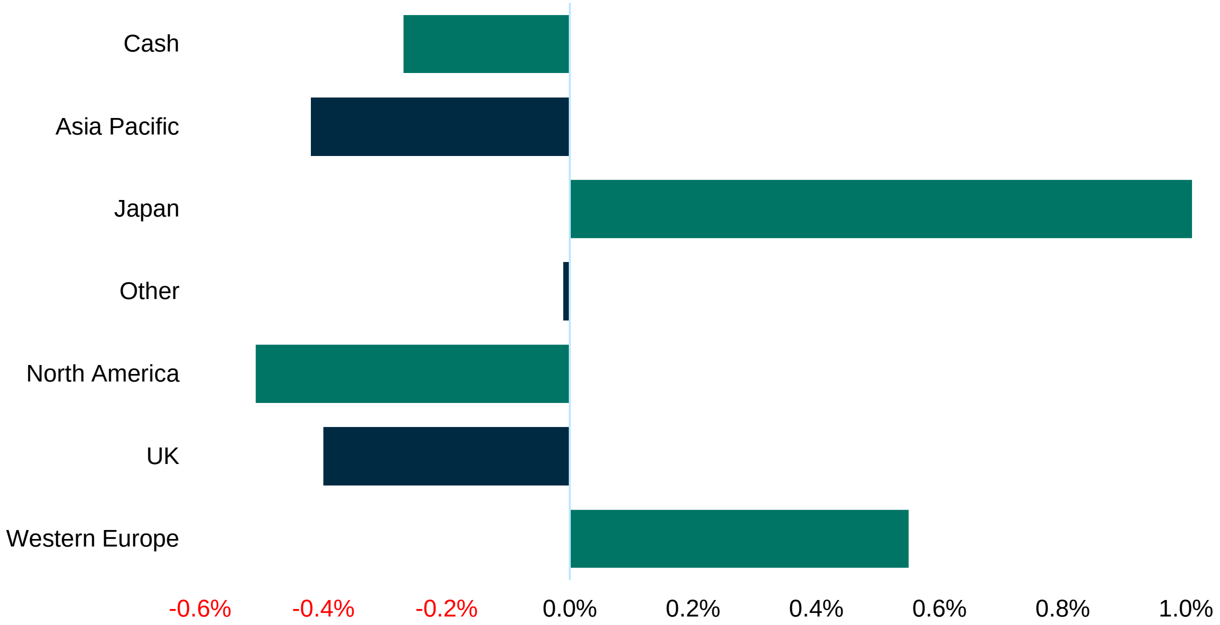


Attribution by Sector

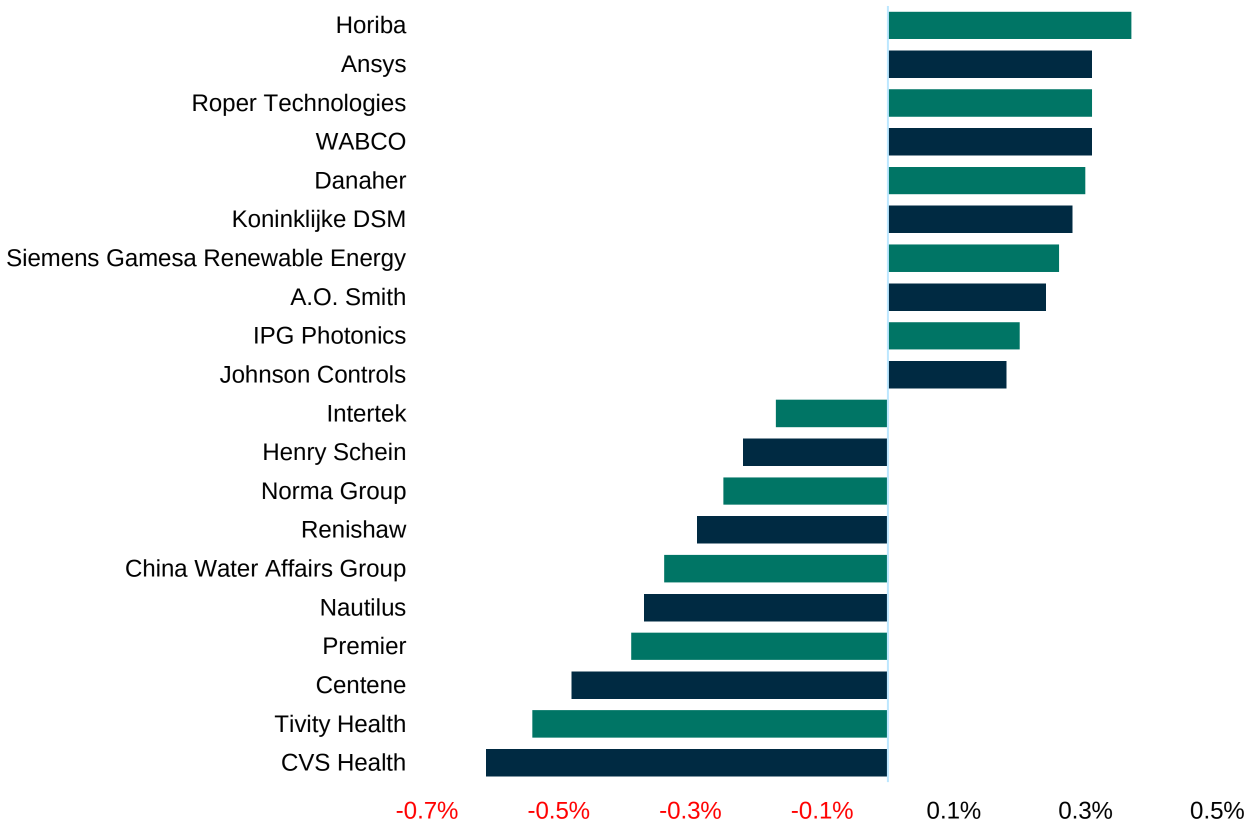


[14] Performance attribution is calculated with reference to the MSCI World Index
[15] The "Thematic Selection Effect" is calculated as the attribution from not having any holding in stocks which are constituents of the MSCI World Index but are not in WHEB's investable universe.

Attribution by Geography

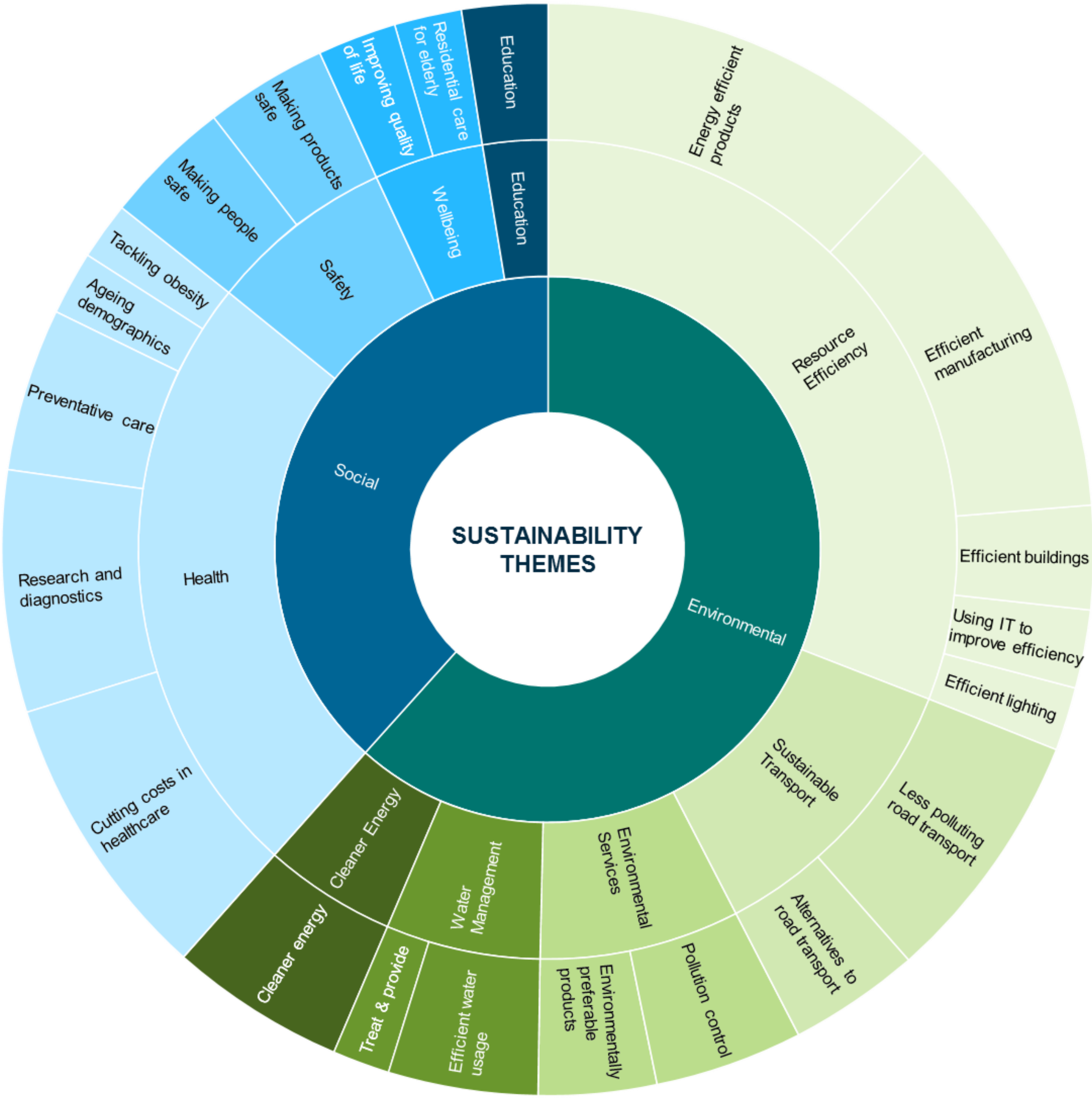


Attribution by Stock (Top and Bottom 10)



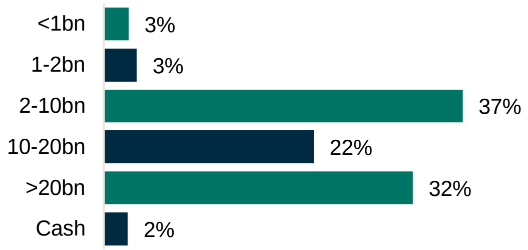
PORTFOLIO ANALYSIS AND POSITIONING[16]

Sustainability Theme Exposure

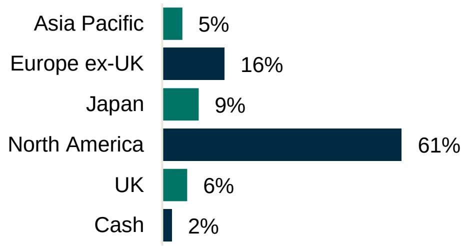


[16] As at 31 March 2019 unless otherwise stated.

Market Cap (U$) Exposure



Geographic Exposure



Top 10 Stocks

Name	Sustainable Investment Theme	Description
A.O. Smith	Resource Efficiency	Energy efficient products
Agilent Technologies	Health	Research and diagnostics
Ansys	Resource Efficiency	Using IT to improve efficiency
Danaher	Health	Research and diagnostics
Grand Canyon Education	Education	Education
Linde	Environmental Services	Pollution control
MSA Safety	Safety	Making people safe
Roper Technologies	Resource Efficiency	Energy efficient products
Thermo Fisher Scientific	Health	Research and diagnostics
Xylem	Water Management	Efficient water use

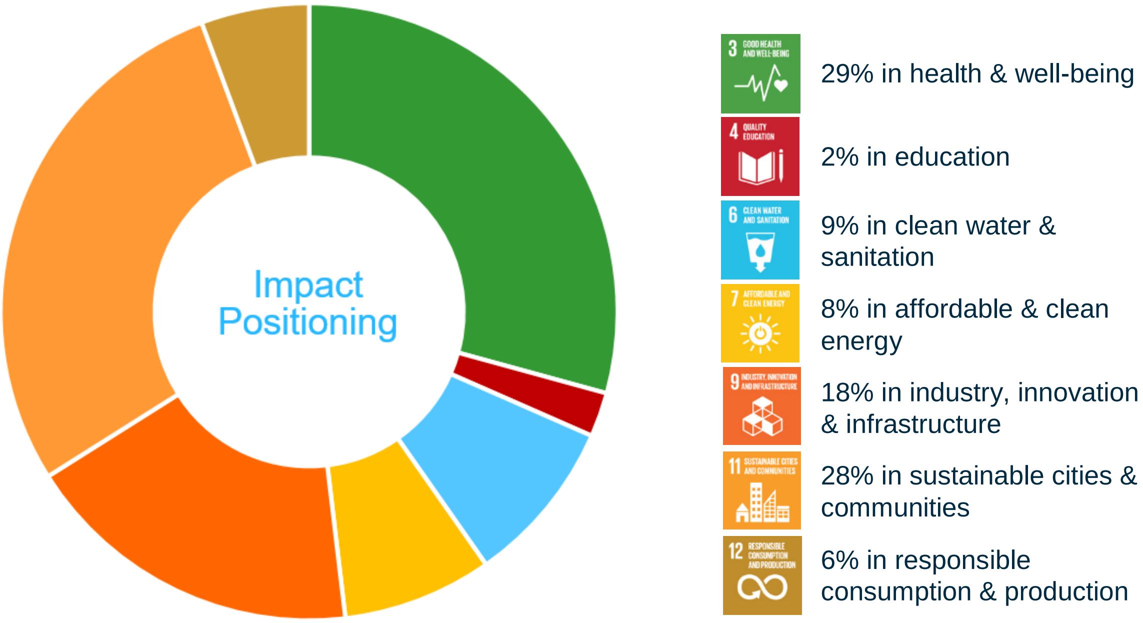
Strategy Characteristics

	WHEB	MSCI
FY1 Price/Earnings (PE)	16.23x	14.31x
FY2 Earnings Growth	12.30%	12.20%
FY1 PE/FY2 Earnings Growth (PEG)	1.32x	1.17x
3-year Volatility	12.29%	10.06%
Beta (predicted)	1.03	
Tracking Error (predicted)	3.70%	
Tracking Error (ex-post)	9.85%	

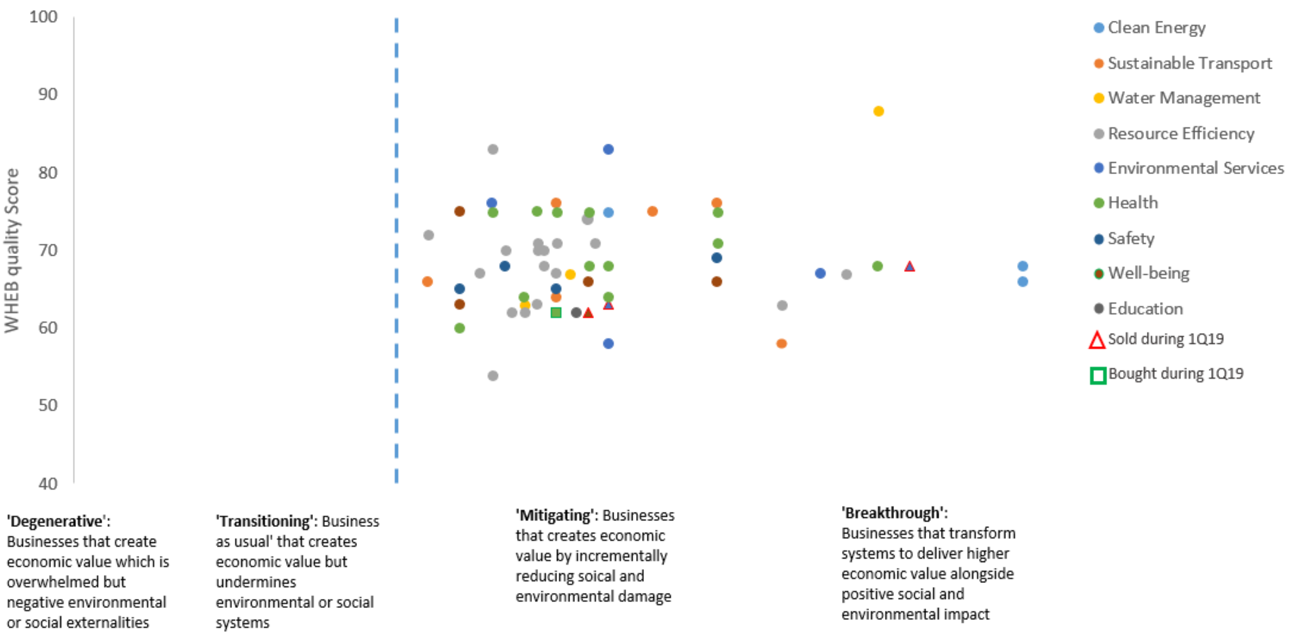
Trading Activity – Significant Portfolio Changes

Stock Name	Purchase or sale	Theme	Brief description or sale rationale
ICU Medical	Purchase	Health	ICU’s purpose is to improve the safety and efficiency of intravenous therapy
Nautilus	Sale	Well-being	Lost confidence in competitive position and ability to produce innovative market-leading products.
Stantec	Sale	Environmental Services	Doubts over management quality and strength of competitive position.
Covetrus Inc	Sale	N/A	Non-thematic animal health business which was spun out of Henry Schein
Lenzing	Sale	Environmental Services	No growth opportunity in the near term until capacity expansion is completed in a couple of years.

Impact Positioning: Supporting the UN Sustainable Development Goals[17]



Impact Map of the WHEB strategy's portfolio following changes in Q1 2019[17]



---

[17] For description of impact mapping methodologies please see WHEB's impact reports, available at http://www.whebgroup.com/impact/. The SDG mapping methodology is described in the 2018 Impact Methodology Report, available at http://www.whebgroup.com/media/2018/05/Methodology-2017.pdf, and the impact positioning graph is described in detail in the 2014 impact report.

ENGAGEMENT AND VOTING ACTIVITY

Voting Record: Q1 2019

The table below summarises the voting record at companies held in WHEB's investment strategy from 1 January - 31 March 2019. Full details of how we voted on each of the individual votes are detailed on our website: https://www.pengana.com/our-funds/international-equities/wheb-sustainable-impact-fund/

Meetings	No. of meetings	%
# votable meetings	13	N/A
# meetings at which votes were cast	13	100%
# meetings at which we voted against management or abstained	7	54%

Resolutions	No. of resolutions	%
# votes cast with management	96	78%
# votes cast against mgmt. or abstained (see list in appendix)	24	20%
# resolutions where votes were withheld	3[18]	2%

Company Engagement Activity

Company	Topic	Comment	Outcome
Smurfit Kappa	Disclosure of impact metrics	Email exchange	Company will look into reporting this information in future
Johnson Controls	Chemical contamination incident	Email	No response as of 16 April
	Climate neutrality	Letter	Company committed to Science Based Targets by 2020
	Combined Chair/CEO	Letter	Company believes Lead Director fulfils equivalent function
	Lack of auditor independence	Letter	Auditor retained to ensure stability after large acquisition
	Low tax rate	Letter	Company is comfortable that tax rate is appropriate
Daikin	Carbon emissions of AC systems	Email	Company is responding to the issue but we are seeking additional detail
Cooper	Lack of Board accountability for Sustainability	Letter	No response as of 16 April
	Insufficient Board gender diversity	Letter	No response as of 16 April
TE Connectivity	Insufficient Board gender diversity	Letter	No response as of 16 April
	'Overboarding' of Board director	Letter	No response as of 16 April
	Lack of Board accountability for Sustainability	Letter	No response as of 16 April
	Excessive CEO remuneration	Letter	No response as of 16 April

[18] We withheld our votes at the Annual Meeting of Rockwell Automation as there was no option to vote Against.

Company	Topic	Comment	Outcome
TPI Composites	Sustainability reporting	Email	Company is planning on issuing a report in 2019
MSA Safety	Sustainability reporting	Email	No response as of 16 April
Centene	Insufficient Board gender diversity	Letter	No response as of 16 April
	‘Overboarding’ of Board director	Letter	No response as of 16 April
	Proposed ban on political donations	Letter	No response as of 16 April
JB Hunt	Insufficient Board independence	Letter	No response as of 16 April
	Insufficient auditor independence	Letter	No response as of 16 April
	Excessive executive remuneration	Letter	No response as of 16 April
	Proposed ban on political donations	Letter	No response as of 16 April

PENGANA CAPITAL LIMITED
ABN 30 103 800 568   AFSL 226 566

Level 12, 167 Macquarie Street,
Sydney NSW 2000

T: +61 2 8524 9900

F: +61 2 8524 9901
E: clientservice@pengana.com