INSIGHTS

PENGANA CAPITAL

Q1 2022 REPORT

Pengana WHEB Sustainable Impact Fund

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WAR AND POWER

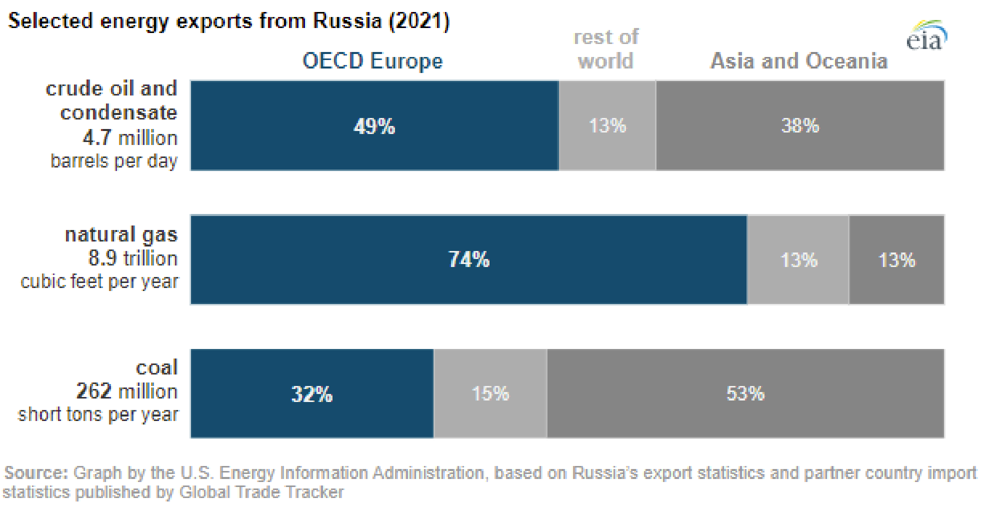
Clean and efficient energy is our greatest weapon against Russian autocracy

Russia's invasion of Ukraine has been met with an unprecedented display of economic force. Russian assets have been frozen, preventing $630bn of foreign currency reserves from being used to fund its war machine[1]. Russian banks have been blocked from the international finance system SWIFT, paralysing the country's ability to conduct international trade. Russian individuals and businesses have been hit with asset freezes and other sanctions to choke support for Putin's war.

In the short-term, these are powerful tools to 'fight' the war in Ukraine (without actually fighting the war in Ukraine). But over the long term, the greatest lever we have against runaway Russian power may be to weaponise power itself.

Fossil fuels are Russia's largest source of income

Combined, Russia is the largest net exporter of oil and gas in the world, earning $241 billion in 2021[2]. Europe is its biggest customer, buying nearly half of Russia's oil and three quarters of its natural gas exports last year, as shown in the chart below[3]. Historically, fossil fuels have accounted for as much as 63% of Russia's exports and a third of its federal budget[4]. This cash has helped fund the military force that is currently destroying Ukraine.



European energy security is hanging in the balance

Aware that Russia's economy is propped up by its fossil fuel exports, America has already banned imports of Russian oil and gas. But, given the implications to its own economy and citizens, Europe has been unable to do the same. Germany is particularly reliant on Russian

[1] https://www.ft.com/content/526ea75b-5b45-48d8-936d-dcc3cec102d8
[2] https://www.reuters.com/markets/europe/russias-oil-gas-revenue-windfall-2022-01-21/
[3] https://www.eia.gov/todayinenergy/detail.php?id=51618
[4] https://www.oecd-ilibrary.org/sites/23fe599b-en/index.html?itemId=/content/component/23fe599b-en

energy imports – IMK, a think tank, has argued that halting Russian energy imports would cause a deep recession in Germany[5].

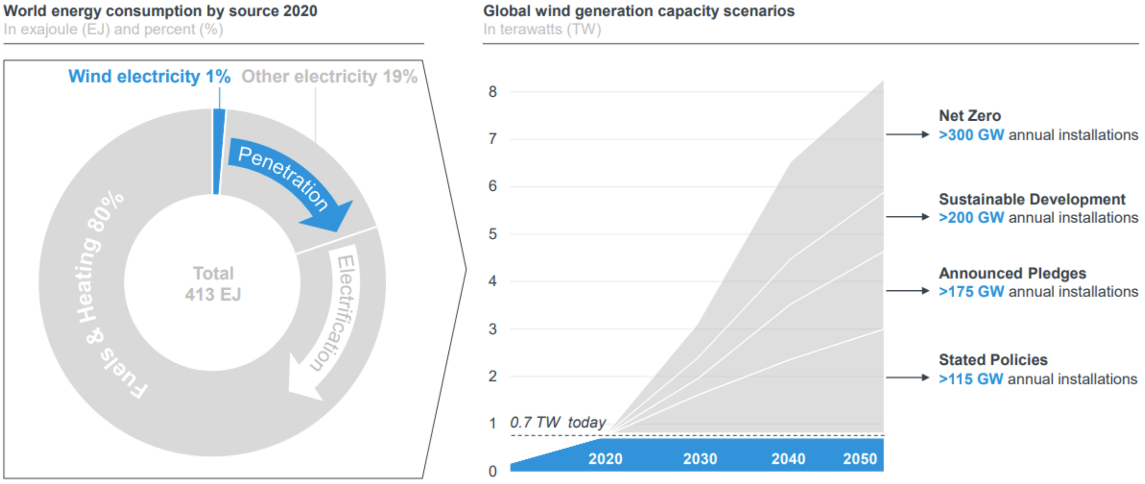
Nonetheless, European citizens are still paying a high price for its reliance on imported fossil fuels. 35% higher, to be precise, as the invasion of Ukraine adds fuel to the fire of an already deepening energy crisis[6]. Clean and sustainable energy has always been an environmental priority for the EU. Now it is a political one as well.

Steps towards energy independence

In March, the European Commission unveiled RePower EU, a new policy initiative which aims to achieve independence from Russian energy by 2030. The plan includes:

- More rooftop solar panels, heat pumps, and energy saving technologies,
- Decarbonising industry by accelerating electrification,
- Accelerating the development of green hydrogen infrastructure, and
- Speeding up renewables permitting.

These are all important initiatives, but that last one is critical. The permitting process in the EU is slow and over-complicated. In fact, it is the number one constraining factor on European wind development. As the CEO of Vestas Wind Systems complained to us last month – 'It's not lack of capital, we just need to get permitting going'. If Europe can fix this issue, it may finally be able to deliver on its pledge to install 451GW of wind capacity by 2030[7] – implying a huge acceleration compared to the current rate of expansion. As the following chart shows, the world dearly needs a much faster rate of wind capacity expansion to reach Net Zero by 2050:



Source: IEA World Energy Outlook 2021

The EU might opt to follow the lead of the UK, which recently announced plans to double the frequency of renewable energy tenders to accelerate new capacity build[8]. This comes as the UK releases its new 'Energy Security Strategy', which aims to 'supercharge cheap renewables' although, controversially, this strategy also includes new nuclear capacity while excluding onshore wind[9].

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[5] https://www.economist.com/europe/can-germany-cope-without-russian-gas/21808482
[6] Difference in consumer energy prices (HICP) between December 2020 and February 2022. Source: https://ec.europa.eu/eurostat/databrowser/bookmark/1d136cf7-7391-462e-a1f0-466487db9b06?lang=en
[7] https://windeurope.org/newsroom/press-releases/its-official-the-eu-commission-wants-30-gw-of-new-wind-a-year-up-to-2030/#:~:text=The%20Commission%20proposal%20raises%20the,up%20from%20180%20GW%20today.
[8] https://www.windpowermonthly.com/article/1739777/uk-plans-annual-cfd-tender-rounds-wind-renewables
[9] https://www.gov.uk/government/speeches/delivering-great-britains-energy-security

America First ensures Cleaner Energy policy remains on the agenda

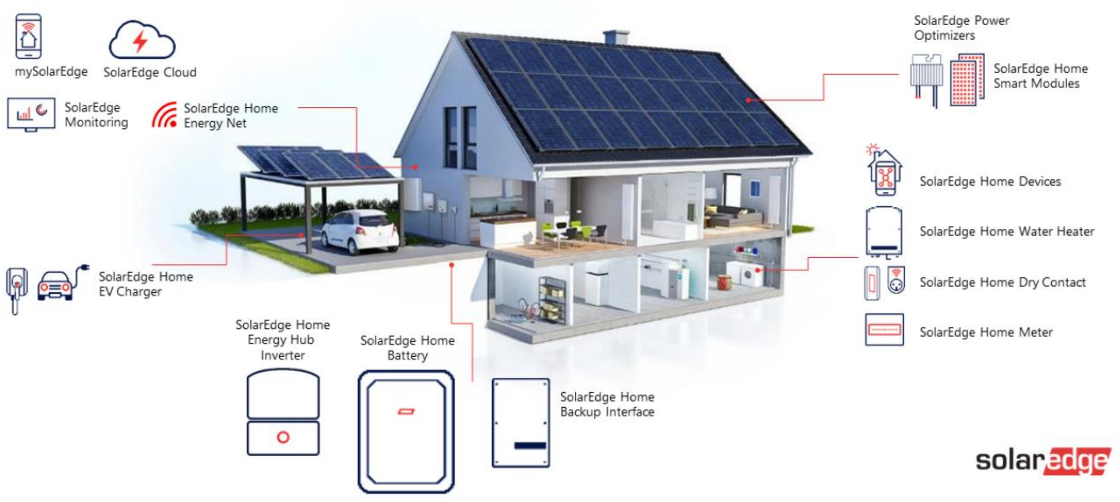
America may not be as reliant on imported energy as its European allies, but that doesn't mean energy security is not a priority. President Biden's State of the Union address, delivered in March, pledged to 'transform America' and 'win the economic competition of the 21st Century'. The President described a battlefield between democracy and autocracy which America must win – 'and we'll do it all to withstand the devastating effects of the climate crisis'.

In our last quarterly review we told you that the Build Back Better plan containing more than $500 billion in climate-related spending had failed to pass through Congress. But from its ashes, we may yet see American policy action throwing support behind the climate transition.

The business leaders, brokers, and consultants we speak to typically believe the >$500bn in Clean Energy spending from Build Back Better is still alive – but remains subject to the interference of Senator Joe Manchin. In March, the Senator pledged his support for an 'all of the above' energy bill which would include big clean energy investments, but only if domestic oil, gas and coal production are still on the cards[10].

On a smaller scale, the America COMPETES Act, already passed by the House of Representatives, contains $3 billion for the domestic manufacturing of solar energy[11]. If passed by the Senate, we believe this would benefit our investment in American solar module manufacturer **First Solar**.

Meanwhile, the President has just announced several initiatives aimed at 'achieving real American energy independence'[12]. These include a further $3 billion in funding for household efficiency and electrification upgrades, and new smart standards focused on more efficient home appliances and equipment. Initiatives like these, principally focused on consumers and homeowners, may benefit our holdings in **SolarEdge** (given its strong presence in residential solar, illustrated in the diagram below), and **Power Integrations** (which manufacturers energy efficient semiconductors).



[10] https://www.politico.com/news/2022/03/02/joe-manchin-democrat-bill-taxes-00013246
[11] https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/us-house-passes-china-competition-bill-that-would-aid-clean-energy-development-68708674
[12] https://www.whitehouse.gov/briefing-room/statements-releases/2022/03/31/fact-sheet-president-bidens-plan-to-respond-to-putins-price-hike-at-the-pump/

A new era for energy policy?

The Biden administration tried and failed to pass big Cleaner Energy policies last year. Their mistake was to appeal to ideals of environmental justice and climate resilience that are simply not strong enough in America, the world's largest oil producer. So they are changing the narrative. American Cleaner Energy policy is now being framed as a battle between democracy and autocracy, in which America must compete to win.

Europe has always had big ambitions for environmental policy. The EU has so far failed to build capacity at a fast enough rate to meet its commitments, however. That looks set to change now. Europe's reliance on Russian power weakens its ability to respond to acts of atrocity and leaves its own energy security hanging in the balance. Europe can no longer afford to drag its feet.

Russia's huge military and its invasion of Ukraine is largely funded by its fossil fuel exports. Ending the West's reliance on Russia through investments in clean and efficient energy is, therefore, the surest way to constrain Russian military power and destabilise its autocratic regime for years to come.

HELPING THE AGED – INVESTING IN ELDERLY CARE

Ageing and care homes

The world is ageing. While this is a global phenomenon, it is a particular feature of European countries. In the year 2000, for example, less than 16% of the French population was over 65 years of age.[13] By 2020 this figure was over 20%. On current trends, by 2050, one in four people in France will be over 65.[14]

The vast majority of these people will be able to live their lives happily in their own homes and communities. A significant proportion, however, need specialist care. The most common reason for moving into a care home is because of severe cognitive and/or physical decline that requires an individual to need full time care. In the UK, about 4% of the 65 and over age group live in nursing homes and other residential settings.[15] This figure rises to 15% for those aged 85 or over and approximately 40% of the total care home population receives specialist care for dementia.

Investing in care homes

In most European countries, growing demand for care homes is being met by the private sector. The European population of 85 years old and over is growing at c.2% per year.[16] Larger private care home operators have been growing at approximately twice this rate over the last decade as

[13] https://www.statista.com/statistics/753163/share-old-people-france/#:~:text=Population%20ageing%20is%20a%20phenomenon,in%202020%20with%2020.56%20percent.
[14] https://stats.oecd.org/Index.aspx?DataSetCode=POPPROJ
[15] https://www.mha.org.uk/get-involved/policy-influencing/facts-stats/
[16] Op. cit. 2

they have taken share in the market.[17] Although the sector is not considered high growth, its progression is extremely predictable as it is driven by the long-term ageing of the population,. The sector also enjoys high occupancy rates; a consequence of the strict regulation governing the sector. In turn this supports pricing in the sector, which is another attractive feature from an investment perspective.

For these reasons, the sector has attracted private investment. However, there are significant risks. Care home residents are extremely vulnerable. The sector also typically relies on relatively unskilled labour to supply care to residents and wages are low. In combination, these factors pose risks to the quality of care as well as staff working conditions. Furthermore, the sector faces higher risk of corruption and fraud due to the need for close relationships with regulators. Any investor in the sector needs to be highly attentive to these issues and how management deals with them.

WHEB's approach and investment in elderly care

WHEB has had one long-term investment in the elderly care sector which we have traditionally viewed as offering critical care to a highly vulnerable community. The company, **Orpea**, is headquartered in France and we originally invested in April 2012. Initially, the company was focused on operating care homes in the French market where it offered 43,000 beds in 2013. Over the past decade the company has more than doubled the number of beds it offers to nearly 115,000 in 2020. It has also expanded into 22 other countries, mostly across Europe. Correspondingly, its share price has also more than doubled during the period.

One of the reasons for the company's success is that it has been seen as one of the highest quality operators in its markets. The company manages care homes at the premium end of the market, offering higher quality care and facilities to its residents. It prided itself on its high

[17] FactSet

standards, refusing to enter the UK market which it believed was characterised by poor quality, and exercising strict controls over its homes.

Due diligence and engagement

Over the many years that we have owned the company, we have conducted a range of deep-dive investigations into the company. We highlighted the sector as high risk following an internal ethics screen and had an extensive engagement with the CEO on how these risks were managed. We have visited Orpea's facilities and met with the company' executives numerous times over the years. We received copies of their internal operations manuals and consulted third party experts on the quality of Orpea's approach and the care homes that they manage. The company routinely publishes independent resident satisfaction surveys which show that more than 90% of residents participating would recommend Orpea to someone close to them.

More recently we have been working alongside other investors and trade union representatives to engage the company on issues concerning the company's labour policies. To date the company has been largely open and responsive to this engagement, including providing more detailed disclosures on employee welfare and training.

The company has also made progress on other important ESG issues during our holding period, including improving board independence, investing more in staff training and committing to setting a net zero carbon target.

'Les Fossoyeurs' (The Gravediggers) – allegations of malpractice at Orpea

At the end of January 2022, excerpts from the book 'Les Fossoyeurs' were published in Le Monde.[18] The book, which was subsequently published on 26th January, contained allegations of mistreatment of residents including systematic rationing of adult nappies, medical treatment and food as well as inadequate staffing, inflated government receipts and bribery of government officials. The author spent three years researching and writing the book and had assembled 250 witness statements alongside testimony from several whistleblowers. These were not one-off events, he claims, but the result of specific policies aimed at reducing costs and placing profitability over the welfare of residents.

Company response

In the days following the newspaper articles and book publication, Orpea's stock price dropped dramatically. Initially the company rejected all the accusations which they considered '*false, outrageous and prejudicial*'.[19] In subsequent statements they argued that they have not pretended 'that we never made mistakes', but that allegations concerning systemic abuse were entirely false.[20] At the end of January, the Board terminated the CEO's contract and announced that two independent investigations would be conducted to 'shed light' on the allegations.[21] Meanwhile, the French Government has announced its own investigations including a parliamentary commission to hear testimony direct from the author.

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[18] https://www.lemonde.fr/idees/article/2022/01/24/les-fossoyeurs-un-livre-qui-ouvre-le-debat-sur-la-gestion-et-le-controle-des-maisons-de-retraite_6110753_3232.html
[19] https://www.orpea-corp.com/images/orpeafinance/pdf/Communiques/ENG/2021/PR_ORPEA_240122_EN_cca65.pdf
[20] https://uk.investing.com/news/stock-market-news/orpea-france-head-says-we-do-not-pretend-that-we-never-made-mistakes-2570425
[21] https://www.orpea-corp.com/en/press-releases/2022

WHEB's position

In the days following the allegations, WHEB's investment team met several times to discuss our position. The ultimate veracity of the allegations is still to be determined. However, in our view, the extensive details supplied in the book as well as the credibility afforded to them by parliamentarians and reputable media outlets suggest that it is probable that some of the misconduct is likely to be proven true.

We contacted the company asking for an urgent meeting. We also canvassed views from our independent Advisory Committee asking them to provide their perspective on our potential courses of action.

We held a video conference with the company's investor relations team at the end of January. The call did not shed further light on the allegations and there was little new information that the company could share on the investigation. The company did stress that the absolute scale of the allegations in the context of Orpea's business was 'a very small number' and that they were not expecting to uncover any major issues.

Why we sold our position

Following the exchange with the company, we concluded that we would sell our position in Orpea. The specific allegations levelled at Orpea rightly remain the immediate focus of politicians, regulators and the media. However, we believe that the wider context is equally problematic. The absolute number of elderly requiring residential care is going to continue to increase in the coming decades. At the same time, the available budgets to support this care will almost certainly fail to keep pace. In a tight labour market, the challenges facing care home operators which typically pay just the minimum wage to care home workers, is going to intensify.

Investing in such a troubled sector that cares for individuals who are among the most vulnerable in our society, is extremely challenging. Even more so for listed equity investors who are inevitably far removed from day-to-day operations. It is likely, in our view, that Orpea is one of the highest quality listed operators in the care home sector in Europe. This seems not to be enough and increasingly we believe that in the absence of massive systematic changes in the industry, the sector will become increasingly uninvestable for investors concerned about the long-term health of the care home sector and for its residents.

Next steps?

While Orpea was the only investment WHEB has made in elderly care homes, we still consider a range of residential healthcare providers as investable in the strategy. This includes companies that operate long-term acute care hospital and rehabilitation clinics, as well as providing care to patients in residential settings. As a consequence of our experience with Orpea, we are reviewing investments in these sectors to examine whether risks of similar types of malpractice and abuse are effectively mitigated by these companies and that long-term trends surrounding care activities are still positive.

ENGAGEMENT ACTIVITY

Hazardous chemicals – pushing for phase-out

One of the first engagement initiatives that WHEB undertook in 2012 was to organise a collaborative engagement with chemicals companies to encourage them to publish their exposure to the most hazardous chemicals and to set phase-out targets for these chemicals.

Roll the clock forward to 2022, and there has been progress, at least on the first objective, but there is still a long way to go in delivering a real reduction in the prevalence of hazardous chemicals on the market and in the wider environment.

ChemScore – ranking exposure to hazardous chemicals

Back in 2012, WHEB worked with the NGO the International Chemical Secretariat (ChemSec) to help us identify companies with exposure to hazardous chemicals. In 2021, ChemSec launched a new tool called ChemScore which provides this data across the world's top 50 chemical producers.[22] A group of investors, representing over $4 trillion in assets under management, has written to all fifty of these companies asking them once more to improve the transparency around their involvement in the manufacture and distribution of these most toxic chemicals and to make time-bound commitment to phase out the most hazardous chemicals from production. In addition,

[22] https://chemscore.chemsec.org/

we have asked the companies to provide more detail on how they plan to shift towards more circular business models overall.

At WHEB we continue to believe that the chemical industry has a critical role to play in enabling the transition to a zero carbon and more sustainable economy. Chemicals are an essential element in many of the critical zero and low carbon technologies that the economy needs. The WHEB portfolio has exposure to three companies that were recipients of the letter. **DSM** featured at number two in the 2022 ranking with **Linde** ranking number eight. Both companies have relatively low exposure to hazardous products, but both received lower scores in 2022 versus 2021. The third company in the list that is owned in the WHEB strategy is **Ecolab** which ranked at number 26 and also received a lower score this year compared to last.

Given the levels of exposure, we have prioritised engagement with Ecolab and Linde and are leading the engagement on behalf of the wider group with these companies. Ecolab is particularly exposed with sixteen chemicals that are specifically identified by ChemSec and/or by regulation as presenting a particular threat due to their persistence, level of hazard and/or toxicity. Seven of these chemicals have been listed by the EU Commission under the REACH regulation. Furthermore, the company has not yet developed robust criteria in new product development to ensure new products do not also have these characteristics and has not responded to ChemSec's efforts to engage the company.

Linde, which is primarily an industrial gases business, is less exposed, but nonetheless still has four products listed in the Chemsec analysis. The company also scores poorly for internal processes for phasing out hazardous chemicals.

Both companies have so far been responsive to our engagement and have indicated that they are preparing responses to our letters which we expect to receive during Q2 of this year. We will provide an update on further progress in the next quarterly report.

Daikin and PFAS

Separately, we have also been engaging with **Daikin Industries** about their exposure to the manufacture of 'PFAS' chemicals. The company was the subject of some negative press coverage related to their alleged involvement in the manufacture of PFAS chemicals. The chemicals, also known as 'forever chemicals', do not degrade in the environment and consequently bioaccumulate and are linked with a wide range of health conditions. Furthermore, the manufacture of PFAS involves the production of HCFC-22, a highly potent greenhouse gas.

The company initially argued that the chemicals that they manufacture are not in the category of bio-accumulative chemicals and that the company has already reduced emissions of process chemicals that do have these characteristics achieving by 99% and are working to achieve a level of 99.9%.[23]

A representative of the company has subsequently indicated to us that the company has actually now exited this business entirely and no longer manufactures any PFAS chemicals. We are seeking to clarify these points with the company.

[23] https://www.daikinchemicals.com/company/sustainability/pfas.html?_ga=2.94615388.1395022060.1643086635-18561567.1563861240

First Solar and the Investor Environmental Health Network

WHEB is collaborating with a small group of US-based investors and with a coalition of NGOs including the Chemical Footprint Project (CFP) and the Investor Environmental Health Network (IEHN) to engage with the US-based company **First Solar** on their use of hazardous chemicals in solar module manufacturing.

First Solar is a leader within the solar sector in many respects. The company recovers approximately 90% of solar modules at the end of their life for recycling. The company has also demonstrated its commitment to responsible sourcing of raw materials and had its policies and processes independently assessed by the Responsible Business Alliance. It is also the first company to have its products registered in the 'EPEAT' scheme.[24]

Nonetheless, the company still faces challenges in eliminating hazardous chemicals from its manufacturing processes and product. The aim of the engagement is to understand how the company plans to reduce the use of chemicals including cadmium telluride in its products and how it manages ongoing substitution with safer alternatives.

Managed care – improving access?

Centene is a US-based managed care organisation that provides insurance and other services to government sponsored healthcare programmes covering 26 million people in the US. This includes supporting Medicaid coverage for households on low incomes, providing coverage to the healthcare exchanges that were set up as part of the Affordable Care Act (also known as 'Obamacare') and health insurance products that support Medicare Advantage which is a programme aimed at the elderly and senior citizens. The company also has a small business working internationally including in the UK.

Centene has emerged as a major provider of health insurance to these communities, and in some states, it is the only provider. They are able to do this because they operate a very tight and efficient healthcare network that offers low-cost access to simple healthcare plans. Their margins are thin, typically around 3-5%, which we would expect of a business focused on value-based care. The investment case is focused more on their ability to grow their share in these markets with their revenue growth typically being >10% per annum.

While we believe that Centene, when it does its business well, plays an important role in enabling healthcare access for poor communities in the US, it is not without controversy. We have engaged with the company over recent months to understand the various issues faced and how management has responded.

[24] https://epeat.net/

Overbilling and network coverage

For example, the company has received a number of significant fines in recent years for overbilling state-level healthcare agencies. These issues go back to 2017 and involve the way in which Centene was sourcing and billing states for pharmaceutical products. The company acknowledged that their approach led to overbilling and has since restructured that business so that any pharmacy management services are now provided purely as a pass-through so that the company makes no margin on these services.

There have also been a group of legal cases concerning the level of access to specialist services that patients are entitled to (known as network coverage). There are inevitably always cases where coverage is incomplete (for example when a specialist retires creating a shortage in that indication at local level) but these instances tend to be temporary and are in any case addressed by enabling access to other providers – albeit sometimes further away – until coverage can be provided more locally. The first of these cases has been thrown out in Washington State. Our engagement with the company confirmed that they believe that the other cases are being taken on a contingent basis (‘no win, no fee’) and that they will also be dismissed in due course.

The D’ashon Morris case

Potentially more problematic has been the case concerning a small child called D’ashon Morris. Centene, through its Texan subsidiary Superior, had reduced the level of care provided to D’ashon Morris which led directly to him suffering severe brain damage. It is clear in talking to the company that the case has caused quite a lot of introspection on how this happened. The Texan healthcare regulator has also been involved and identified areas where Superior’s systems needed to be improved. The company now claims that all of these areas have now been addressed and formally agreed with HSSE, and that in the last few weeks a final settlement has also been reached with D'ashon Morris's family.

We have followed up with the company because we are keen to understand what the areas for improvement that were identified with HSSE were, what Superior/Centene have done to address them and whether, ultimately, these changes will ensure that these events can not be repeated. Disappointingly, we have not yet heard back from the company.

UK activities

Centene is an overwhelmingly US-focused business with substantially all its revenues coming from the US. The company does though have a small subsidiary in the UK called Operose. Operose has in recent years acquired a number of GP surgery networks, a proportion of which it has subsequently closed down. Our main concern in this case is whether the approach that Operose is taking is leading to a persistent loss of access to healthcare following the surgery network rationalisation. Centene are clear that Operose worked with local NHS Commissioners and Clinical Commissioning Groups to make sure that no patient was impacted by the decisions to close GP surgeries. According to the company, each patient was re-routed to other surgeries so that each closure was carefully considered and there was no member fall-out. We have asked to speak to Operose management to understand more about their business model and strategy and how the company determines whether a surgery is underperforming and whether alternative arrangements were considered prior to deciding to close them. Again we have not yet heard back from Centene.

We will continue to engage with the company and hope to get further insight into how the company is handling these issues. We retain the right to divest from the company should we feel that their answers fail to fully address the concerns that we have.

Public policy and standards

Climate change

Throughout the quarter, investor groups remained very active in keeping pressure on governments to continue to adopt aggressive action to mitigate greenhouse gas emissions and adapt to anticipated climate change. This included co-signing the 2022 Investor Statement which is the largest collaborative policy statement from investors. In 2021 the statement was backed by over 730 investors representing $52 trillion. The new statement will be released over the Summer as part of a programme of measures aimed at building momentum leading up to COP27 at the end of the year.

UK Green taxonomy

Throughout the quarter the UK Government has continued to develop a policy framework to underpin the development of sustainable finance. WHEB has been engaged in responding to the Government's consultations including on the Sustainable Disclosure Regime.[25] In March we wrote to the Government to set out our views on the 'green taxonomy' for the UK. This is a key part of the Government's policies and will, we believe, have an important impact on how the market develops.

We welcome the Government's ambition in developing the taxonomy and believe that there is an opportunity to structure the taxonomy in a way that is more explicitly supportive of products and

[25] https://www.whebgroup.com/media/2022/01/WHEB-Quarterly-Review-Q4-2021.pdf

services that are enablers of climate solutions. This is an area that is only partially addressed in the EU's taxonomy, and we believe that the UK's version could develop this area further, while also ensuring that it remains consistent with the broad principles set out in the EU taxonomy. We understand that further developments in the taxonomy and the wider Sustainable Disclosure Regime will be published in Q2.

Voting and transparency

In December we received a letter from the Minister of Pensions asking for our views on the report published by the Taskforce on Pension Scheme Voting Implementation. Separately we had received a letter from the Occupational Pensions Stewardship Council which also sought our views on specific questions regarding the transparency of our voting policies and the alignment with clients.

We have responded to both of these initiatives as we too believe that it is important that asset managers are transparent about their voting policies and activity. We also welcome greater client interest in the role that asset managers can play in leveraging their position as owners of public equities in advocating for more progressive policies and behaviours at investee companies.

As we hope this report and other client communications makes clear, we take voting at company meetings extremely seriously. We use it to engage with portfolio companies in our efforts to advance higher standards of corporate governance and social and environmental performance. Voting is a key part of WHEB's holistic approach to active management and as an impact manager it is core to our mandate to engage for progressive change with our portfolio businesses.

We look forward to further engagements with both the Department of Work and Pensions and with the Occupational Pensions Scheme Stewardship Council on how we can best support our clients' ambitions as regards voting and engagement with portfolio businesses.

Eliminating plastic pollution

In February we signed a letter in support of a global treaty on plastic pollution. The letter was put together by the Plastic Solutions Investor Alliance and called on the UN to agree a global treaty to reduce plastic use and eliminate problematic and unnecessary plastics from the global economy. The letter also called on policy frameworks to be developed to ensure a coordinated international approach including common reporting and monitoring standards.

In early March, at a meeting involving representatives from 173 countries, an agreement was reached that included the majority of the provisions that we had called for in our letter. This included endorsing a decision to agree an international legally binding agreement by 2024 that would address the full lifecycle of plastic including production, design and disposal.

PERFORMANCE COMMENTARY

Following heavy losses in January, stock market weakness continued into February. March saw some recovery, but global equity markets finished down in the first quarter overall. Volatility also remained high throughout most of the period.

In January we wrote about of the reasons for the extreme volatility we saw during that month. High and rising inflation fed into expectations for company earnings which face increasing input costs and supply delays. It also led to signalling from the US Federal Reserve that it is preparing to raise interest rates more aggressively than initially expected. An inflationary environment combined with rising rates is one which markets haven’t had to contend with in a long time, and one which many working in the industry have little experience of in their careers.

Low interest rates and supportive monetary policy have favoured high growth businesses in recent years. The potential reversal of this macro backdrop has led to significant weakness in the share prices of some higher growth stocks. It has also led investors to look at areas which tend to do well in a rising interest rate environment, particularly energy and financials. This combination has created a significant headwind for WHEB’s strategy.

The existing negative market sentiment was amplified when Russia invaded Ukraine on 24 February in an internationally condemned act of aggression. This is foremost a human tragedy, triggering Europe's largest refugee crisis since World War II and likely resulting in deaths estimated to be in the tens of thousands. It has also had economic effects. The primary concern is Europe's reliance on Russia for 40% of its natural gas imports and more than a quarter of its crude oil. Global supply chains are also impacted, particularly in the automotive and semiconductor industries.

All of these are adding to inflationary pressures. Energy and commodity price inflation has been particularly high. The conflict has also created further uncertainty around the global outlook for growth. The prospect of slower growth will leave central banks in a difficult position, as their plans to increase interest rates to address inflation may have further negative consequences for economic growth.

Against this backdrop, the Fund underperformed the MSCI World benchmark, returning -16.8% versus -8.2%. The underperformance of higher growth companies has had a direct impact on relative performance. As a result of its positive impact focus, the portfolio has no exposure to traditional energy or financial stocks, and this was a significant headwind to relative performance. Our Resource Efficiency, Sustainable Transport and Health themes were all negative contributors to relative performance. Cleaner Energy and Education were the relative bright spots, partially offsetting the areas of weakness.

A common theme for underperforming stocks with industrial-focused end markets, for example within the Resource Efficiency and Sustainable Transport themes, was the impact of component shortages and inflation. For many with automotive exposure, concerns about end market demand also weighed heavily.

Within Resource Efficiency **Kion** was the largest contributor to underperformance. The German market as a whole under-performed the broader index due to its closer ties to Russia compared with other European markets. The company confirmed it has less than 1% revenue exposure to Ukraine and Russia and minimal raw material exposure. However, as an industrial business, its near-term growth is closely tied to global output and the economic environment. It is also highly exposed to the supply-chain bottlenecks. Towards the end of the quarter, it withdrew guidance for 2022 because of those headwinds. This followed a major profit warning from a competitor which further contributed to negative sentiment. Long-term, these supply chain headwinds highlight the need for more efficient and resilient supply chains. One of the reasons we invest in Kion is because of its warehouse automation solutions which help achieve exactly that. As a result, we remain confident in the long-term opportunity, despite the near-term uncertainty.

Silicon Labs was another under-performer within the theme. It designs and develops integrated circuits used for connectivity functionality in the Internet of Things. Like Kion, the potential impact of supply chain headwinds both in terms of input costs and end-market demand are weighing on the stock. However, the company has demonstrated strong pricing power and has been successful in securing supply relative to peers. Importantly, the long-term opportunity remains very attractive, and the growth drivers were reiterated during the analyst day in March.

Sustainable Transport was similarly impacted by supply chain headwinds. Weakness in **Aptiv** was driven by concerns around the impact of inflation within semiconductor components leading to pressure on margins. In addition, there is risk that demand from both car manufacturers and the ultimate consumer weakens. Many OEMs have had to halt production at European facilities due to the conflict in Ukraine, while consumers may be impacted by the pressures from rising inflation.

Infineon and **TE Connectivity** have felt pressure on their share prices for similar reasons as they have meaningful exposure to the automotive end market. However, as suppliers of components which are suffering from shortages, they are in a stronger position than Aptiv, who buys these components. Both have demonstrated the ability to pass cost inflation on to customers through price increases over the period of disruption we've seen so far. For all three companies we continue to see long-term opportunities from increasing electrification.

The Thematic Selection Effect, which serves as a rough proxy as to whether investing in positive impact companies is creating a headwind or tailwind during the period, was a marginal headwind during the quarter. Much of this was due to the strength in the energy sector where we have no exposure. This was partially offset by the lack of exposure to some of the large technology and consumer discretionary names which were weak during the quarter. We remain confident the thematic selection effect should be positive over the long term as we transition to a more sustainable economy.

The Cleaner Energy theme was a strong positive contributor over the quarter. The negative sentiment we witnessed in the previous quarter reversed as the market started to recognise the role renewables would have to play in accelerating the shift away from reliance on Russian fossil fuels. **SolarEdge** was the strongest performer within the theme, as it has proportionally higher exposure to Europe. It also has a growing exposure to commercial end markets, which have been a key driver of demand in the face of energy price inflation and increasing commitments to net zero targets.

The quarter has been characterised by significant volatility and increasing uncertainty about the global growth outlook, as well as rising levels of inflation. It is difficult to make predictions in this kind of environment and as we wrote in January, we still see potential for headwinds to remain for the portfolio in the short-term. It is worth reiterating the message from January of the need to maintain discipline. It is not uncommon to see corrections or sharp rotations in the market and in the face of that it is important for WHEB to maintain focus on the fundamentals and the long-term.

We continue to find opportunities amidst the weakness, and we strongly believe that the portfolio is increasingly well positioned for the long-term growth afforded by solutions for the transition to a more sustainable economy. Although the current environment is affecting the share prices of our holdings, we don’t see it as undermining our thesis. Rather, the supply-chain issues and the necessary changes in energy supply in the wake of the conflict in Ukraine increase the need for these solutions and, as a result, strengthen the long-term growth drivers of the companies we invest in.

PORTFOLIO ACTIVITY

Following rapid changes in the macroeconomic and market environment during the quarter, we increased levels of portfolio activity over the past few months, taking advantage of share price volatility to start new positions in several high-quality and highly impactful companies. We initiated six positions and sold seven positions in the quarter.

Recent purchase

We began a new holding in **Globus Medical** in our Health theme. This is the market leader in manufacturing spinal implants and surgical instruments for musculoskeletal disorders. The company has also recently developed the ExcelciusGPS system, the first robotic device supporting surgeons in spinal surgery.

Globus Medical is a very innovative company, launching over 10 products per year on average. It is the pioneer of expandable interbody implants which is expected to be a key source of growth in the medium term. The company is also well positioned to benefit from the increasing adoption of its robotics platform, which also helps drive additional sales of its spinal implants and surgical instruments.

Spirax Sarco is a new position in our Resource Efficiency theme. It is a UK company that specialises in products and services that help manufacturing businesses use and recover heat efficiently. The company also provides electric thermal and fluid control technology.

Spirax Sarco has a direct sales model which enables it to develop deep, long-term relationships with customers, creating a very stable customer base. Most of its business is linked to operational and maintenance budgets, which provides more stability compared to capital expenditure spending. It is widely regarded as one of the highest quality, most well-run companies in the UK industrial sector.

We bought into **Hamamatsu Photonics** in our Health theme. It is a leader in photonics technology supplying optical sensors, lasers and photonic components into medical instruments as well as industrial equipment and environmental testing markets.

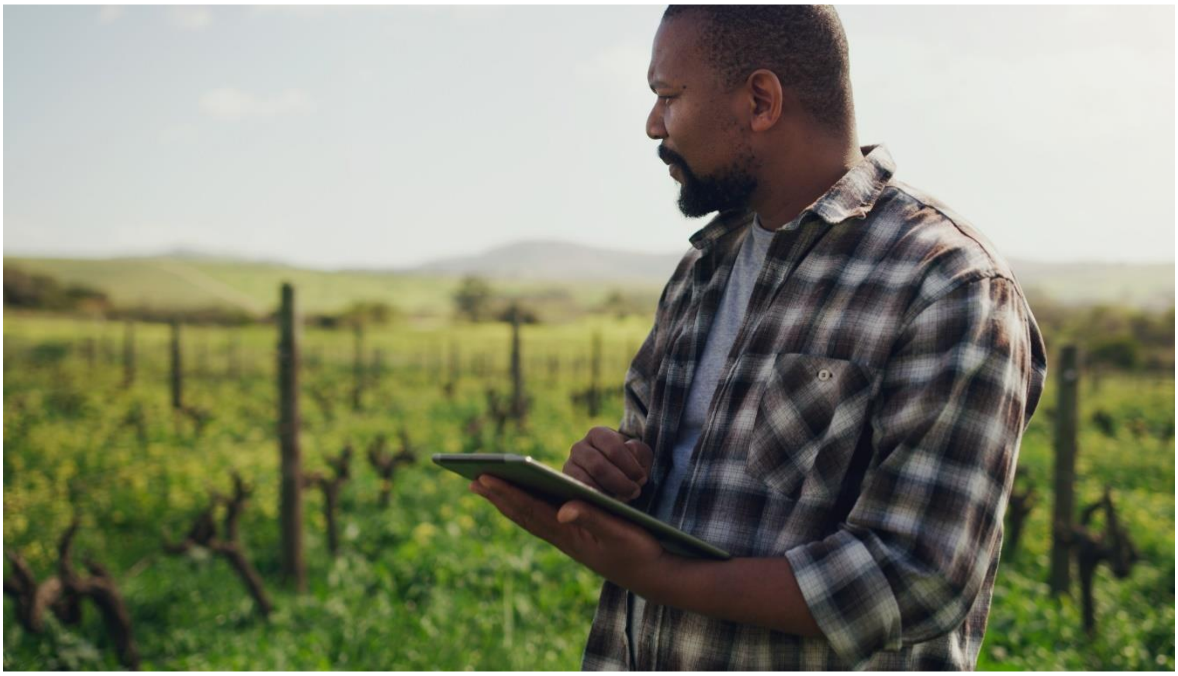
This Japanese company is very focused on developing new knowledge and technologies. It also has a very close direct sales relationship with its customers, and many products are even co-designed with its clients. This helps to explain its strong market share and loyal customer base. Its products play a key role in enabling the transition towards electric vehicles, energy storage and autonomous driving.

We initiated a new holding in **Trane Technologies** in our Resource Efficiency theme. This company provides high efficiency air conditioning systems and services, serving both residential and commercial end markets. It also provides climate-controlled transport solutions for the food and medical industries.

We are impressed by the company’s sustainability strategy. Compared to its peers, it demonstrates a much stronger commitment to sustainability, including its target to reduce one gigaton carbon emissions from its customers’ footprint by 2030. Trane’s salesforce consists of highly trained engineers, assisting its customers to achieve efficiency savings. More importantly, the salesforce's compensation is linked to its 2030 ESG targets so there is a clear alignment between business growth and positive environmental impact.

We started a new position in **Trimble** in our Resource Efficiency theme. Trimble provides location-based sensors, systems and software to clients in the construction, agriculture and transport markets. Its products and services help clients improve process efficiency by enabling more precise activities.

Using agriculture as an example, its technologies enable and promote more sustainable agricultural practices. It improves accuracy of seeding and spraying which reduces waste and chemical use. More accurate soil data helps farmers better understand how to prepare the field, which leads to more optimised planting and eventually better yields. We also like its fast-growing software business which is expected to drive margin expansion.



Another new acquisition is **Genmab** in our Health theme, a Danish biotechnology company, specialising in the creation and development of differentiated antibody therapeutics for the treatment of cancer.

We are particularly impressed by its impact profile as it specifically pursues areas of high unmet need, where there is no alternative treatment or current patient outcomes are often poor. Its products generally show higher efficacy and better safety profiles. The company's innovative culture enables it to have a very strong proprietary product pipeline, which will be a key growth driver for the company in the coming decade.

Recent sales

We sold **Premier** in our Health theme. It provides services to healthcare providers (mainly hospitals) to reduce the cost of procurement of healthcare equipment and consumables. Premier also provides IT and advisory services aimed at helping hospitals improve quality, safety and population health management. The company's execution has not lived up to our expectations whilst we have owned it, and we are not able to see a clear catalyst that is likely to improve the situation in the near term.

We closed our position in **Strategic Education** in our Education theme. It is a US company providing educational services. The company owns physical campuses but delivers courses predominantly through online platforms. It offers graduate and postgraduate degree courses for adults, primarily targeting minority groups and students from disadvantaged backgrounds. Recently, the company faced a couple of headwinds. The political environment has worsened for the for-profit education sector in the US. Enrolment also struggled to grow as its targeted student cohort was hit hard during the pandemic.

We sold out our position in **Orpea** in our Wellbeing theme. It operates nursing homes for the elderly as well as health clinics for post-acute care and psychiatric care. We have become seriously concerned about the quality of care it provided to its patients after a journalist accused it of systematically mistreating its residents in order to maximise profits. Please refer to Page 5 for an in depth review of our position on Orpea.

We sold **Hikma** from our Health theme. It manufactures non-branded generic and in-licensed pharmaceutical products. It offers a range of therapies including injectables and a range of generic products that are offered at affordable prices across a very wide range of developed and developing markets. Our conviction in the stock has weakened as generic drugs face continuous pricing pressure and the visibility of its pipeline is low.

We sold out our position in **Horiba** in our Environmental services theme. It is a Japanese company specialising in the manufacture of analytical and measuring equipment for environment, health and safety applications. We believe Horiba's impact intensity is in decline as its leading position in automotive emissions becomes less important as the industry transitions to electric vehicles.

We closed our position in **Lennox** in our Resource Efficiency theme. It designs and manufactures products for heating, ventilation, air conditioning and refrigeration. Its products include residential and commercial heating and cooling products including furnaces and heat pumps. While its business fundamentals remain strong, we prefer Trane to Lennox as the former is more committed to sustainable outcomes, in our view, and it plays a stronger role in delivering environmental impact in the commercial and industrial markets.

We closed our position in **Wabtec** in our Sustainable Transport theme. It manufactures locomotives and freight cars, as well as rail control, including signal design and engineering services in the freight sector. Wabtec also provides passenger transit vehicles including regional and high-speed trains. It has struggled to grow the business for some time, due to the sluggishness of the North American locomotive market. We also have lower conviction in growth coming from investments in rail infrastructure following the pandemic.

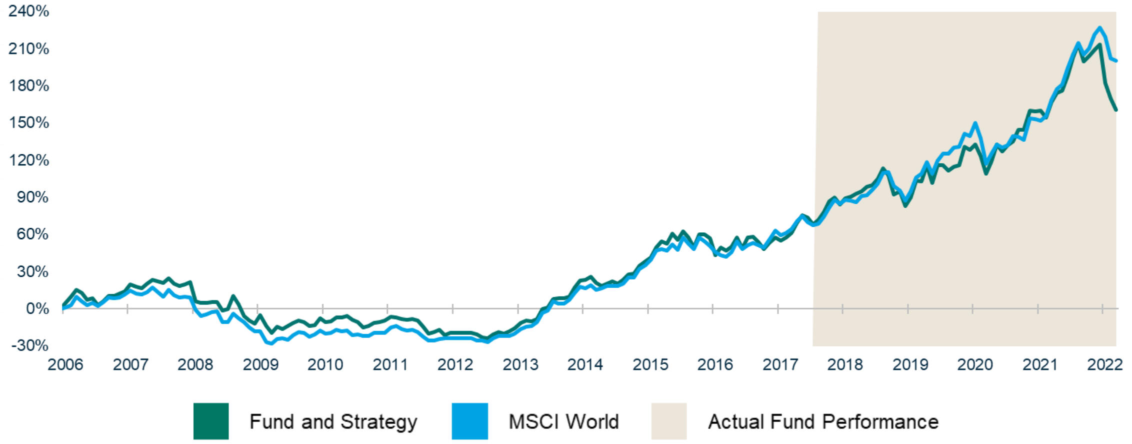
INVESTMENT PERFORMANCE

Cumulative Investment Returns

Net performance for periods ending 31 March 2022

	3 mth	1 yr	3 yrs p.a.	5 yrs p.a.	Since inception p.a.
Fund	-16.8%	-2.2%	8.8%		
Strategy (partial simulation)[26]				10.1%	6.1%
MSCI World[27]	-8.2%	11.7%	12.9%	12.8%	7.0%

Performance Since Strategy Inception



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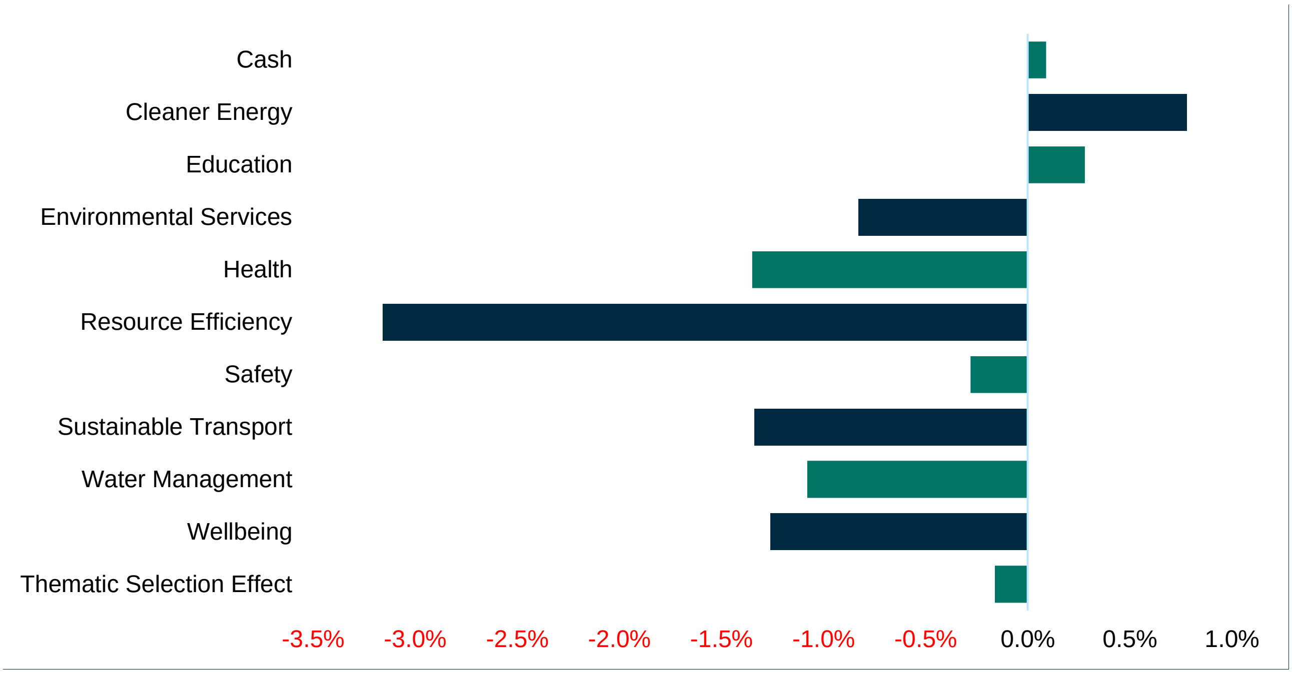
[26] From August 2017, performance figures are those of the Pengana WHEB Sustainable Impact Fund's class A units (net of fees and including reinvestment of distributions). The strategy's AUD performance between January 2006 and July 2017 has been simulated by Pengana from the monthly net GBP returns 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.

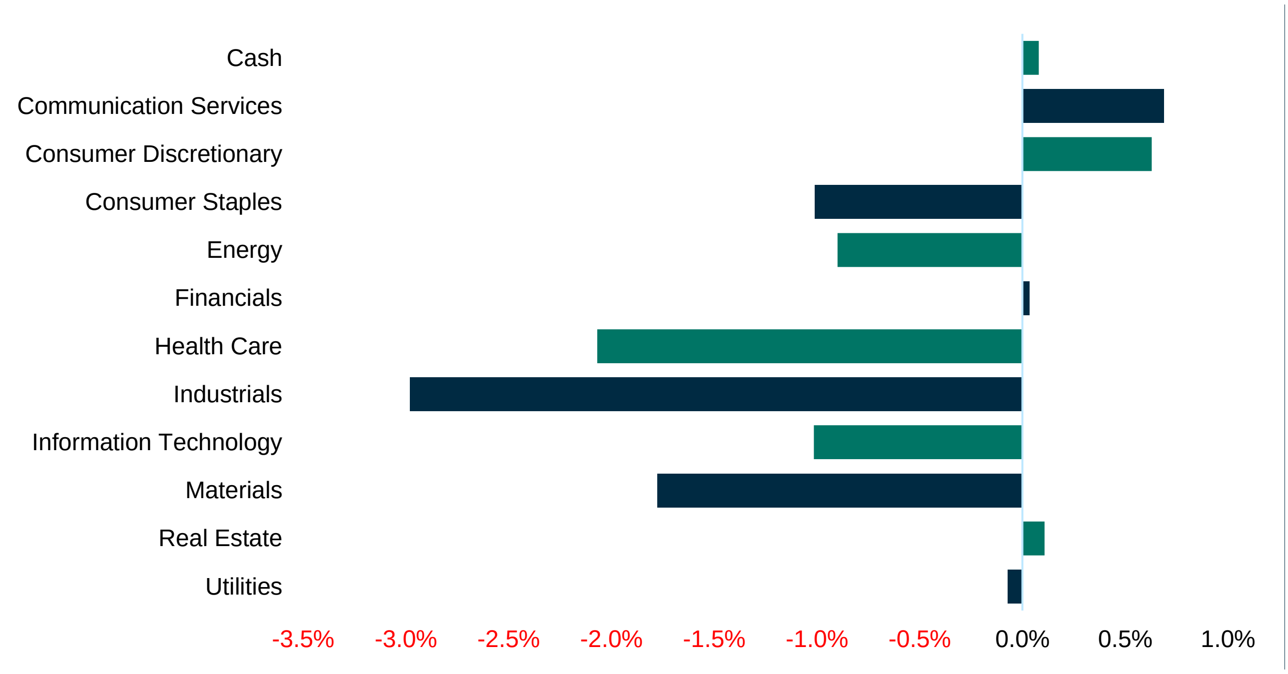
[27] MSCI World Total Return Index (net, AUD unhedged).

Performance Attribution – Last 3 Months[28]

Attribution by Sustainability Theme[29]



Attribution by Sector



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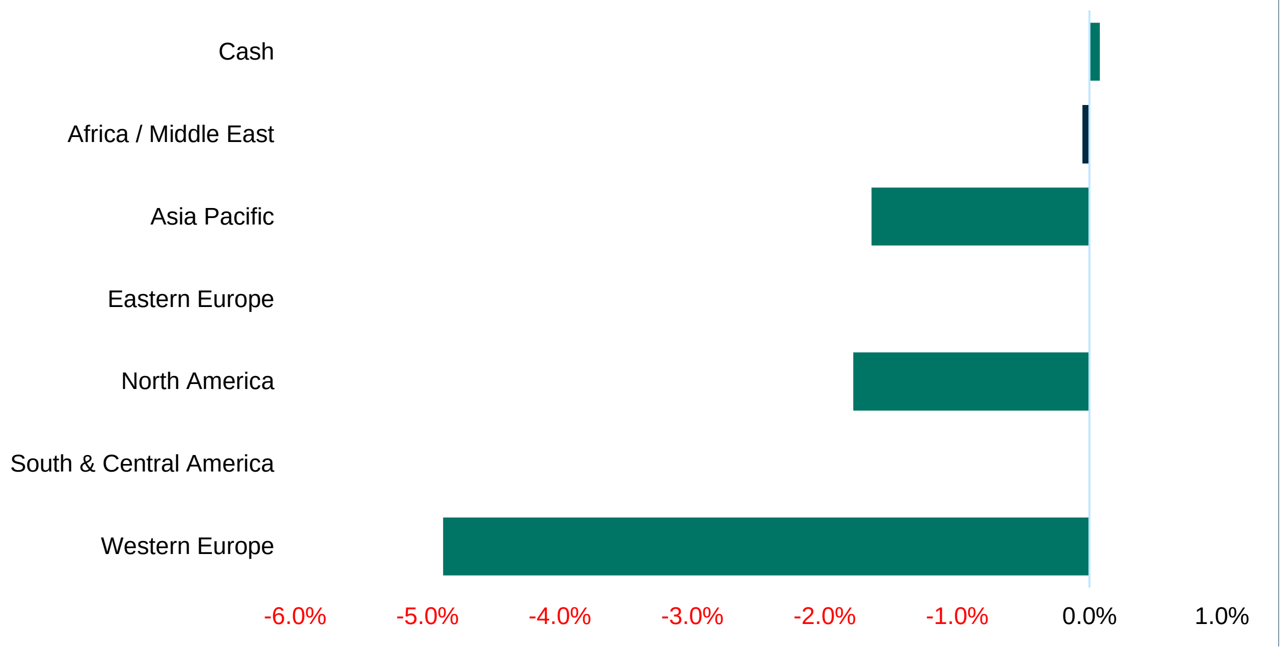
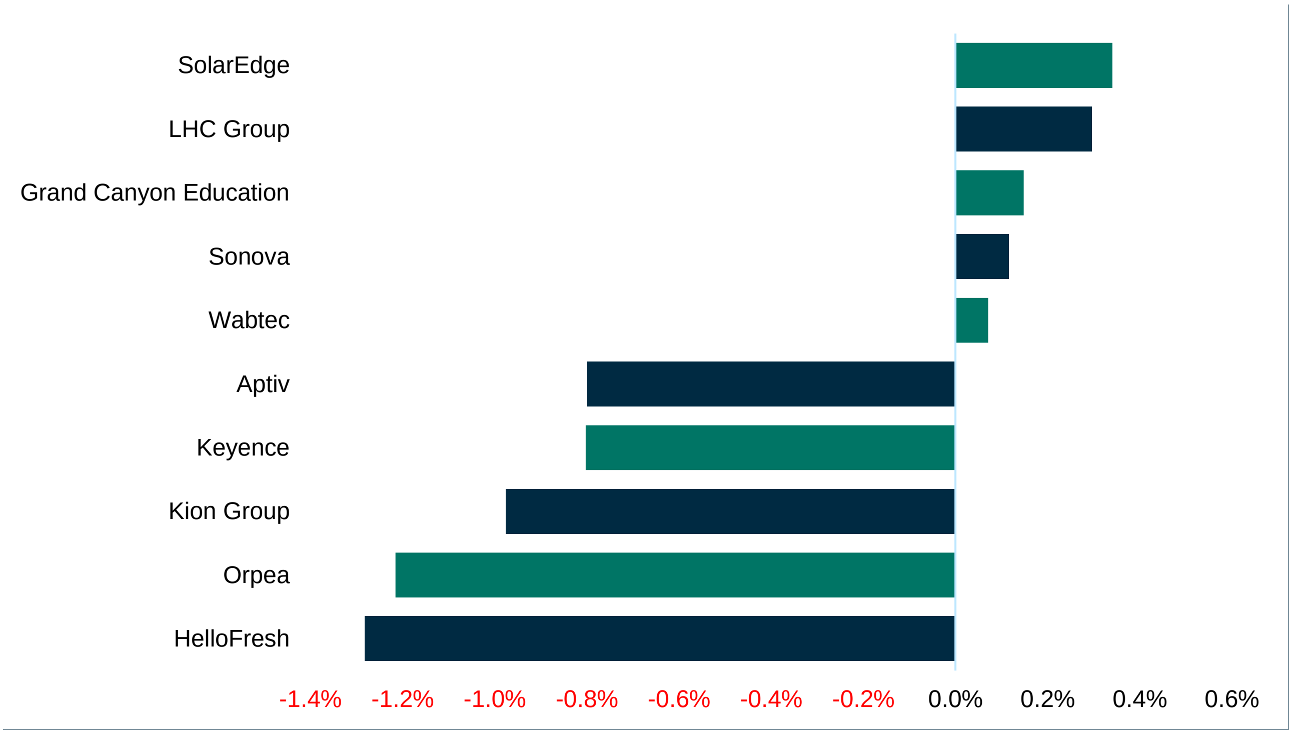
[28] Performance attribution is calculated with reference to the MSCI World Index
[29] The "Thematic Selection Effect" is calculated as the attribution from not having any holding in stocks which are constituents of the MSCI World Index but are not in WHEB's investable universe.

Attribution by Geography

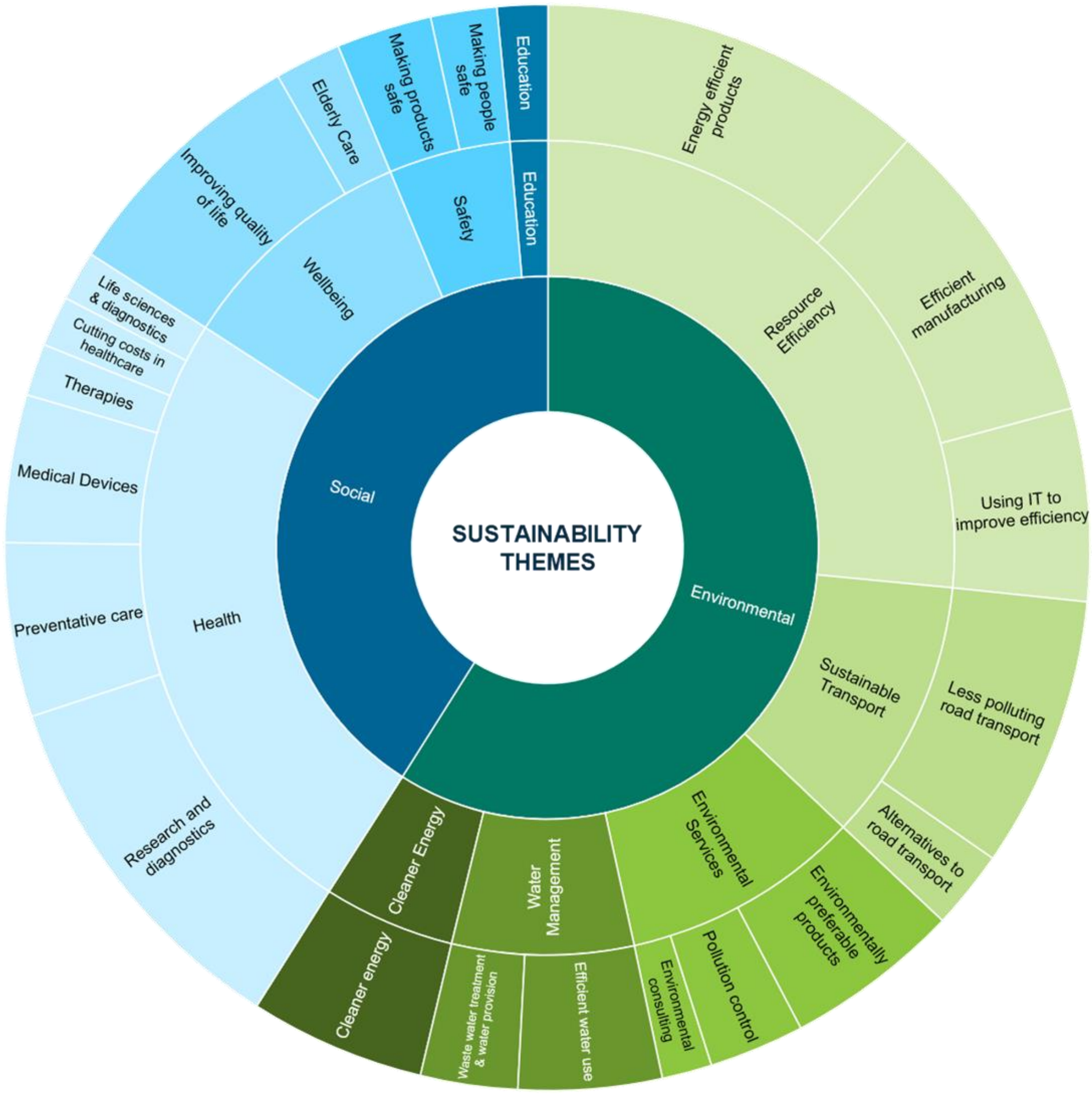


Contribution by Stock (Top and Bottom 5)



PORTFOLIO ANALYSIS AND POSITIONING[30]

Sustainability Theme Exposure



[30] As at 31 March 2022.

Largest 10 Positions

Name	Sustainable Investment Theme	Description
Danaher	Resource Efficiency	Using IT to improve efficiency
HelloFresh SE	Resource Efficiency	Energy efficient products
Thermo Fisher Scientific	Wellbeing	Improving quality of life
Koninklijke DSM	Sustainable Transport	Alternatives to road transport
Infineon Technologies AG	Resource Efficiency	Energy efficient products
Ecolab	Health	Cutting costs in healthcare
Advanced Drainage Systems Inc	Resource Efficiency	Energy efficient products
TE Connectivity	Resource Efficiency	Energy efficient products
Ansys	Safety	Making products safe
CSL	Health	Therapies

Strategy Characteristics

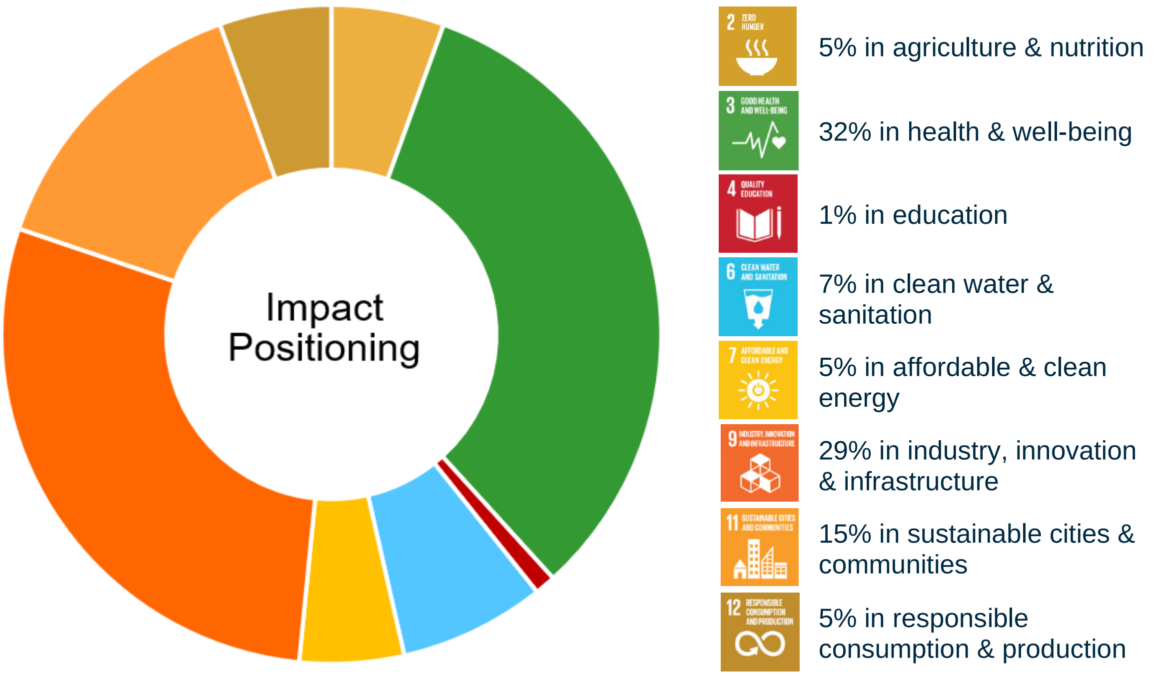
	WHEB	MSCI
FY1 Price/Earnings (PE)	25.9x	25.96x
FY2 Earnings Growth	16.57%	16.71%
FY1 PE/FY2 Earnings Growth (PEG)	1.56x	1.55x
3-year Volatility	17.36%	17.53%
Beta (predicted)	1.06	
1-year Tracking Error (predicted)	6.46%	
5-year Tracking Error (ex-post)	7.73%	

Trading Activity – Significant Portfolio Changes

Stock Name	Purchase or sale	Theme	Brief description or sale rationale
Globus Medical	Purchase	Health	Globus Medical is a best-in-class spinal med-tech company which has been gaining market share through innovation, particularly in spinal robotics.
Strategic Education	Sale	Education	Strategic Education continues to struggle with enrolment growth, and we are concerned about rising competition in online education.
Premier Inc	Sale	Health	We sold Premier to invest in higher conviction opportunities where we believe the impact case is stronger.
Hamamatsu	Purchase	Health	Attractive exposure to battery management, LiDAR (light detection and ranging) and environmental testing.
Spirax-Sarco	Purchase	Resource Efficiency	Leading steam-solution provider with a high quality business model and "magic margin“ expansion. Market rotation created an attractive entry opportunity.
Trane	Purchase	Resource Efficiency	Clear leader on sustainability within the HVAC space with a data-driven approach to efficiency savings for customers.

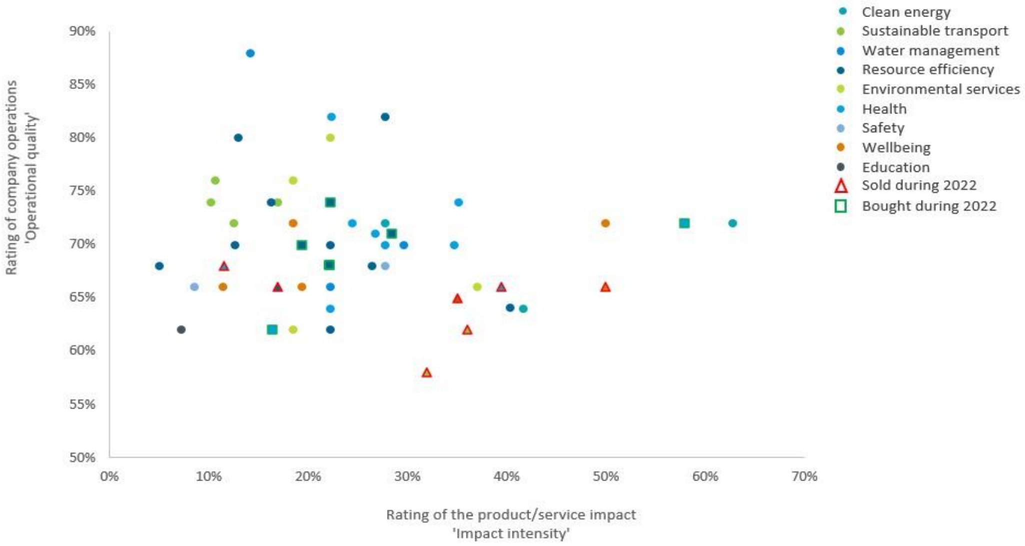
Trimble	Purchase	Resource Efficiency	Position technology tools/service provider offering sustainability-focused solutions across a wide range of industries.
Hikma	Sale	Health	Generics face continuous pricing pressure and product launches have disappointed.
Horiba	Sale	Environmental Services	Core car emission testing under structural pressure and nascent battery testing becoming increasingly competitive. Also, less impactful semiconductor segment has grown in proportion.
Lennox	Sale	Resource Efficiency	Preference for Trane as sustainability-driven growth potential higher in the commercial and industrial markets than residential.
Orpea	Sale	Well-being	Recent allegations raise serious questions in short term and potentially more structurally about the nursing home sector.
Wabtec	Sale	Sustainable Transport	Decreasing conviction in growth from investment in rail infrastructure.
Genmab	Purchase	Health	Its industry-leading antibody drug development platform enables Genmab to develop new and improved therapies for treating cancer and other diseases.

Impact Positioning: Supporting the UN Sustainable Development Goals[31]



[31] For descriptions of impact mapping methodologies please see WHEB's impact reports, available at https://impact.whebgroup.com/methodology/. The SDG mapping methodology is described in the 2019 Impact Methodology Report, available at https://impact.whebgroup.com/methodology/, and the impact positioning graph is described in detail in the 2019 impact report.

Impact Map of the strategy's portfolio following changes in Q1 2022[32]



ENGAGEMENT AND VOTING ACTIVITY

Voting Record: Q1 2022

The table below summarises the voting record at companies held in WHEB's investment strategy from 1 January 2022 to 31 March 2022. Full details of how we voted on each of the individual votes are detailed on our website: https://pengana.com/our-funds/wheb-sustainable-impact-fund/

Meetings	No. of meetings	%
# votable meetings	5	
# meetings at which votes were cast	5	100
# meetings at which we voted against management or abstained	4	80

Resolutions	No. of resolutions	%
# votes cast with management	77	85%
# votes cast against mgmt. or abstained (see list in appendix)	15	15%
# resolutions where votes were withheld	0	0%

[32] As above.

Company Engagement Activity

Company	Topic	Method	Detail	Outcome
Arcadis	Gender diversity	Meeting	Encouraging company to accelerate pace of improvement in gender diversity	Ongoing
	EU Taxonomy disclosure	Meeting	Encouraging the company to disclosure proportion of revenues eligible for the EU Taxonomy. The company has so far refused to do this because of the complexity of the regulation.	Unsuccessful
Centene	Human rights (US)	Conference call	We engaged with the company to understand how policies have changed following the settlement of a case involving major negative health impacts of a child covered by Centene insurance.	Ongoing
	Human rights (UK)	Conference call	We engaged to understand how activity in the UK to rationalise GP networks has impacted on health access.	Ongoing
Daikin	Net-zero strategy	Collaborative engagement	Continued conversations with CA100+ and the company to encourage the company to improve the quality of their NZC strategy	Ongoing
DSM	NZC strategy	Meeting	Company clarified key aspects of the NZC strategy including that they do not use offsets and that reported reductions are absolute.	Successful
Ecolab	Hazardous chemicals	Collaborative engagement	We are leading a group of investors to engage with management to encourage fuller disclosure and commitments to phase-out hazardous chemicals	Ongoing
First Solar	Hazardous chemicals	Collaborative engagement	Working with other investors and the Investor Environmental Health Network (IEHN) to encourage the phase-out of hazardous chemicals.	Ongoing
HelloFresh	Unionisation and employee pay	Email	Allegations that the company has been involved in anti-union behaviour and paying below the ‘living wage’ in US operations.	Ongoing
	Biodiversity	Email	Company uses the GAP standards to integrate biodiversity into its supply-chain and plans to disclose more information in 2022 and develop fuller biodiversity policies in 22/23.	Partially successful
Infineon	Conflict minerals	Letter	WHEB was a signatory to a collaborative investor letter sent to Infineon to clarify their approach to conflict minerals.	Ongoing
	EU Taxonomy	Meeting	Encouraging the company to disclosure proportion of revenues eligible for the EU Taxonomy. The company plans to report later in the year.	Partially successful
Linde	Hazardous chemicals	Collaborative engagement	We are leading a group of investors to engage with management to encourage fuller disclosure and commitments to phase-out hazardous chemicals	Ongoing
Premier	Director independence / Overboarding / Auditor independence	Letter	AGM letter setting our concerns about lack of director independence, overboarding, and a lack of auditor independence.	Ongoing

	Sustainability director	Letter	Company has now formally included sustainability as part of the brief for the Nominating and Governance Committee.	Successful
	ESG and wider reporting (incl NZC targets)	Letter	Company has issued its first sustainability report and is considering what targets to set on carbon, diversity and other ESG issues incl. how to integrate these into executive remuneration.	Partially successful
TE Connectivity	Net zero carbon target	AGM Letter	The company has a 2030 target to reduced GHG emissions by 35%. In addition, we want to see a net zero carbon target by 2050 at least.	Ongoing
	Overboarded director	AGM Letter	We consider Abhijit to be 'overboarded'.	Ongoing
	Auditor independence	AGM Letter	The firm's auditor has been in place for more than ten years and is therefore not considered to be independent.	Ongoing
	CEO remuneration	AGM Letter	The CEO's remuneration is >100x the company's median pay which we consider to be excessive.	Ongoing
	Governance of ESG	AGM Letter	We believe that accountability for the company's approach to ESG/Sustainability should be at board level which it is not currently.	Ongoing
Trane Technologies	Net zero carbon strategy	Collaborative engagement	We're working with the CA100+ group of investors to engage management to encourage development of a more complete strategy to achieve net zero carbon emissions	Ongoing
Vestas	Biodiversity	Email	The company will be launching a biodiversity strategy in 2022 and has agreed to ensure that biodiversity is a criterion in project development and ownership.	Partially successful
Wabtec	Conflict minerals	Email	Company sets specific expectations for suppliers concerning a range of ESG issues incl. on conflict minerals. The company is also a member of the Responsible Minerals Initiative to extend the list of minerals that are actively managed in this way.	Partially successful