



PENGANA WHEB SUSTAINABLE IMPACT FUND

MAY 2018
PERFORMANCE
UPDATE

FUND DESCRIPTION AND FEATURES

The Pengana WHEB Sustainable Impact Fund invests in companies with activities providing solutions to sustainability challenges.

WHEB have identified critical environmental and social challenges facing the global population over coming decades including a growing and ageing population, increasing resource scarcity, urbanisation and globalisation.

The Fund invests in companies providing solutions to these sustainability challenges via nine sustainable investment themes – five of these are environmental (cleaner energy, environmental services, resource efficiency, sustainable transport and water management) and four are social (education, health, safety and well-being).

WHEB's mission is 'to advance sustainability and create prosperity through positive impact investments'.

Visit our website for more information on the [Fund](#).

Sustainability experts & portfolio managers	Ted Franks Seb Beloe George Latham
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APIR code	HHA0007AU
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Redemption price	\$1.0995
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Management fee	1.35% p.a.
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Minimum initial investment	\$10,000
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Strategy inception¹	1 January 2006
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¹ The Fund inception on 31 October 2007 as the Hunter Hall Global Deep Green Trust. The Fund was relaunched on 1 August 2017 as the Pengana WHEB Sustainable Impact Fund employing the WHEB Listed Equity strategy. This strategy was first employed on 1 January 2006 by the Henderson Industries of the Future Fund and currently by the FP WHEB Sustainability Fund.

FUND COMMENTARY

For the month ending 31 May 2018, the Fund returned +1.94% compared to the MSCI World Net TR Index (AUD unhedged) which returned +0.39%.

In April, many of our stocks reacted negatively to good results. By contrast, in May, a number of our holdings reported strong results and their stock prices reacted positively.

Our Resource Efficiency theme was the largest positive contributor, led by IPG Photonics. The stock jumped more than 10% after the company's results. There have been concerns over a slowdown in the consumer electronics sector, which is one of IPG Photonics' larger markets. It confounded these fears with continued healthy growth. IPG Photonics is benefitting from the continuous shift to more energy efficient higher power fibre lasers. The growth rates are striking: its high-power laser sales grew 37% in the last quarter.

The Safety theme was our second positive contributor. A number of our holdings in the theme performed extremely well this month. Littelfuse was the best contributor in the Fund with its stock price surging 17% after its results announcement. Vehicles of all types are becoming increasingly electrified, and Littelfuse's safety equipment plays a key role in making this possible. There had been

doubts whether this growth story could continue but the results showed that it has some way still to go.

Another outperforming company in the Safety theme was MSA Safety. The company delivered a solid set of results in April with organic growth of 7%. The stock was also helped by the positive sentiment around higher energy prices as it sells safety products to the energy and commodity industries.

Our Wellbeing theme was the largest detractor. Henry Schein was the major underperformer in the theme. We thought its first quarter results were generally solid. But there are question marks, as many investors are concerned about slow dental equipment growth in North America. Henry Schein also remains widely perceived as being at risk of disruption by digital competitors.

In terms of individual holdings, BTG and CVS Health were the worst contributors in the Fund, which are both in our Health theme. BTG disappointed investors with its lower growth guidance for its Interventional Medicine business. Interventional medicine has the potential to make a major positive impact on health outcomes and is one of the key attractions of the stock. So we are watching carefully.

In a similar way, CVS Health reduced its growth outlook for the second half of 2018 and its stock

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suffered as a result. We have a longer-term focus and are engaged by CVS Health's vision of its merger with Aetna.

WHEB COMMENTARY

We expanded our Wellbeing theme this month with an investment in Tivity Health.

Tivity is an American company with a profound positive impact. It provides fitness programs for the individuals covered by its insurance company customers. It designs good courses and encourages the individuals to stick with them. This has a measurably positive impact on their health.

Tivity's most famous program targets older adults. It goes by the memorable name of "SilverSneakers®". It is the largest such program in the USA. Over 15 million people are eligible to take part, and more than three million do so.

One fascinating aspect of SilverSneakers is that exercise is not the whole story. Part of its power comes from simply reducing social isolation. Studies have shown quite striking health impacts from doing so. One attributed a 50% increase in mortality to isolation, more than from obesity. Another equated isolation with the health negatives of smoking 15 cigarettes a day.[†]

Tivity operates within the unique framework of the US healthcare industry. But the ideas that underpin its business are important around the world. They are generally referred to under the broad heading of 'population health management'. This means addressing the health outcomes of a defined group of people.

There is no health system anywhere in the world where cost isn't a key consideration. This is particularly true in the developed world where populations are aging fast. Population health management keeps people away from expensive medical interventions. It's a cheaper approach for stretched health systems. The cost/ benefit trade-off is also easy to see.

The concept of population health is not new. In our portfolio, Cerner, Centene, Premier and HMS Holdings are all involved in population health. It's a key justification for the acquisition of insurer Aetna by our holding, CVS Health.

But the number of emerging businesses in this area is growing rapidly. Most of the major technology companies have population health initiatives. And there are lots of interesting smaller growth companies, like Tivity.

Besides healthcare cost pressures, there are a couple of key reasons why this market is flourishing now. Both reflect broader trends we see across the sustainability spectrum.

The first is digitisation. The power of information technology is visible in all of our investment themes. In Health and Wellbeing, this is improving treatment methods and patient outcomes. But it is also enabling the kind of data-gathering which is revolutionising population health.

The other trend that links to the broader sustainability agenda is consumer responsibility. Tivity and the other companies provide the tools. But it is down to the individual to engage. In previous generations individuals were rarely encouraged to make their own healthcare choices. This was the responsibility of insurance companies and health systems.

Individuals know more about their lifestyle options than ever before. Increasingly they want to make more sustainable choices. Our strategy's exposure to consumer-led sustainability is increasing. Lenzing, Nautilus and DSM are relatively recent additions, and now Tivity is another. We expect there to be more.

[†] Study data from Tivity Health Investor Day Presentation, 1 June 2018.

FUND AND STRATEGY PERFORMANCE (NET OF FEES, AUD, PARTIAL SIMULATION²)

Net performance (%) for periods ending 31 May 2018

	1M	1Y	3Y p.a.	5Y p.a.	Since inception p.a.
Fund	1.9				
Fund and Strategy (partial simulation ²)	1.9	13.1	7.4	14.9	5.7
MSCI World ³	0.4	9.8	8.1	14.7	5.4



² 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.

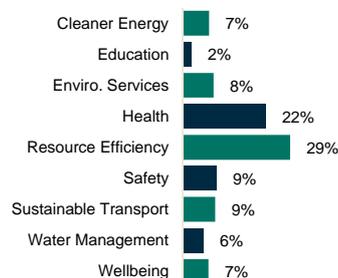
³ MSCI World Total Return Index (net, AUD unhedged).

PORTFOLIO INFORMATION

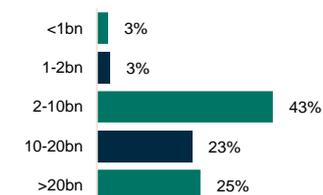
Top 10 Stocks		
Name	Sustainable Investment Theme	Description
Ansys	Resource Efficiency	Using IT to improve efficiency
Danaher	Health	Research and diagnostics
Ecolab	Water Management	Efficient water use
Grand Canyon Education	Education	Education
MSA Safety	Safety	Making people safe
Norma Group	Sustainable Transport	Less polluting road transport
Orpea	Wellbeing	Residential care for elderly
Praxair	Environmental Services	Pollution control
A.O. Smith	Resource Efficiency	Energy efficient products
Xylem	Water Management	Efficient water use

Largest 3 Contributors	Largest 3 Detractors
Littelfuse	BTG
Horiba	Siemens Gamesa Renewable Energy
HMS Holdings	CVS Health

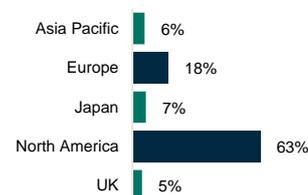
THEME EXPOSURE



MARKET CAP (U\$) EXPOSURE



GEOGRAPHIC EXPOSURE



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