



# Product Review

## Pengana WHEB Sustainable Impact Fund

ISSUE DATE 28-04-2023

### About this Review

ASSET CLASS REVIEWED	GLOBAL EQUITIES
SECTOR REVIEWED	GLOBAL LARGE CAP
SUB SECTOR REVIEWED	FUNDAMENTAL THEMATIC
TOTAL FUNDS RATED	31

### About this Fund

ASIC RG240 CLASSIFIED	NO
FUND REVIEWED	PENGANA WHEB SUSTAINABLE IMPACT FUND
APIR CODE	HHA0007AU
PDS OBJECTIVE	TO ACHIEVE CAPITAL GROWTH OVER THE MEDIUM TO LONG-TERM
INTERNAL OBJECTIVE	TO OUTPERFORM THE BENCHMARK BY 3% P.A. OVER ROLLING THREE-YEAR PERIODS (BEFORE FEES)
STATED RISK OBJECTIVE	EXPECTED TRACKING ERROR 4-7% P.A.
DISTRIBUTION FREQUENCY	ANNUAL
FUND SIZE	\$269M (JANUARY 2023)
FUND INCEPTION	31-10-2007
ANNUAL FEES AND COSTS (PDS)	1.35% P.A.
RESPONSIBLE ENTITY	PENGANA CAPITAL LIMITED

### About the Fund Manager

FUND MANAGER	WHEB ASSET MANAGEMENT LLP
OWNERSHIP	58.6% WHEB GROUP / 41.4% INVESTMENT TEAM
ASSETS MANAGED IN THIS SECTOR	\$2.5BN (JANUARY 2023)
YEARS MANAGING THIS ASSET CLASS	17

### Investment Team

PORTFOLIO MANAGER	TED FRANKS
INVESTMENT TEAM SIZE	6
INVESTMENT TEAM TURNOVER	LOW
STRUCTURE / LOCATION	PORTFOLIO MANAGER, ANALYST / LONDON

### Investment process

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

### Fund rating history

APRIL 2023	RECOMMENDED
APRIL 2022	HIGHLY RECOMMENDED
APRIL 2021	HIGHLY RECOMMENDED

### What this Rating means

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

### Strengths

- The team has a long track record managing money as global equity ESG specialists.
- The team exhibits a strong philosophical commitment to ESG investing, which is evident in the extensive integration of ESG in the investment process.
- Superior level of transparency and accountability governing the investment stewardship of the Fund.
- The strategy is differentiated relative to some peers, albeit noting recent product development within the sub-sector.

### Weaknesses

- The team is lightly resourced versus global equity peers, especially given the specialised investment universe, albeit this is being progressively addressed.
- The Manager's valuation discipline is less rigorous relative to some global equity peers.
- The Fund's sustainability approach may translate to a less diversified portfolio versus some core global equity funds.
- Medium term performance has been weak, coinciding with stock specific events.

### Fund Risk Characteristics

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

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

### BIometrics

#### Aggregated risks

	1	2	3	4	5	6	7
STD RISK MEASURE						●	

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

	LOW	MODERATE	HIGH
RISK TO INCOME		●	

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## Features and benefits

	LOW	MODERATE	HIGH
COMPLEXITY		●	
ESG			●

## Fee profile

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

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

## What is this Fund?

- The Pengana WHEB Sustainable Impact Fund ('the Fund') is an actively managed, 'long only', benchmark-unaware global equity strategy providing heightened exposure to companies responding to global sustainability challenges. The internal objective of the Fund is to outperform the MSCI World TR Net Index AUD ('the Benchmark') by 3% p.a. over rolling three-year periods (before fees).
- Pengana has appointed the London-based investment manager WHEB Asset Management Ltd ('WHEB' or 'the Manager') to manage the underlying securities of the Fund.
- WHEB applies bottom-up stock selection to identify global companies deemed attractive within the prism of nine sustainable investment themes, which includes both environmental (e.g. cleaner energy, sustainable transport, and water management) and social themes (e.g. education, health, and well-being). Investments are made in companies that are deemed to derive at least 50% of their revenue or profits from activities within one or more of these nine sustainability themes.
- The Fund is managed to a sustainable growth at a reasonable price ('GARP') investment style, therefore, seeking to identify companies that provide structural growth and are trading at attractive valuations. Further, it will typically exhibit a small to mid-cap bias with a modest portion of the portfolio held in companies with a market capitalisation between US \$2-10bn. Active Share (which is a measure of the difference between the portfolio and the Benchmark) is typically above 95% compared to the Benchmark. Lonsec notes that this level is not surprising given the Manager's environmental and social focus. However, regional exposures are managed to closely align with the Benchmark.
- The Manager has a long-term investment horizon for company forecasts/valuations, which is consistent with their growth-biased investment style. In light of this, the Manager adopts a 'buy and hold' strategy, which translates into a portfolio that will typically experience very low levels of stock turnover (c. 20% p.a.).
- While the Manager does not formally apply negative screening akin to a traditional ethical fund, by nature of the focus on sustainability themes (positive screening), the Manager does not invest in areas often regarded as sensitive for ethical investors. This includes companies exposed to tobacco, alcohol, gambling, pornography, and weapons manufacturing.

- The Manager subscribes heavily to the alpha generation opportunity from companies responding to global sustainability challenges. A company's ESG awareness and management of sustainability issues are viewed as integral to corporate health and long-term financial performance. As such, the assessment of ESG factors is incorporated throughout the entirety of the Manager's investment process (e.g. themes development, industry research, bottom-up company valuation, portfolio construction).
- The Fund's PDS, dated 15 September 2022, disclosed Annual Fees and Costs ('AFC') totalling 1.35% p.a., comprising of (1) management fees and costs of 1.35% p.a.; (2) a performance fee cost of 0.00% p.a.; and (3) net transaction costs of 0.00% p.a. In line with RG97, some fees and costs have been estimated by the issuer on a reasonable basis. Actual fees and costs may vary to these estimates.
- The Fund does not charge a performance fee.
- The Fund charges buy/sell spreads set at 0.25%/0.25%. These spreads may be subject to change, most notably during periods of market volatility, and can be sourced from the Manager's website during such times.

## Using this Fund

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

- Lonsec notes that the Manager has produced a Target Market Determination ('TMD') which forms part of the Responsible Entity's Design and Distribution Obligations for the Fund. Lonsec has collected the TMD that has been provided by the Manager and notes that this should be referred to for further details on the Target Market Summary, Description of Target Market and Review Triggers.
- The Fund is a 'long only' global equity product, specialising in environmental sustainability, resource efficiency and social themes, and as such will generally sit within the growth component of a balanced portfolio. In Lonsec's view, the Fund's significant level of positive ethical/SRI screening still enables the Manager to diversify the portfolio either through sector and/or stock selection. The Fund is suitable for mid-to high-risk profile investors with at least a five-year investment time horizon.
- A GARP investment style typically aims to invest in stocks with solid long-term growth prospects without overpaying. In this sense, the GARP style can be considered somewhat of a blend between 'growth' and 'value'. Lonsec considers the Fund to be suitable for blending with other global equity strategies including growth and core style biased funds, small-cap or long/short products.
- Lonsec believes that investors seeking exposure to global equities should primarily invest in well-diversified global equities funds that are able to take advantage of mispricing opportunities across stocks and regions. Lonsec considers that allocations to specialist funds such as this may provide diversification benefits to portfolios with broader global equities exposure. However, Lonsec

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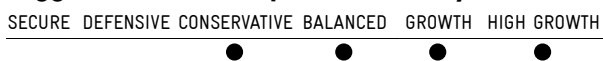
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notes the appropriateness of such ‘tilts’ depend on a client’s risk tolerance.

- Given the heightened environmental and social focus of the Manager, the strategy will typically contain a limited exposure to large components of the global investment opportunity set including financials, materials, fossil fuel production and real estate.

### Suggested Lonsec risk profile suitability



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

### Changes Since Previous Lonsec Review

- In July 2022, the Manager assumed the management of the iM Global Partner Sustainable Europe Fund. This strategy will be managed to the same investment philosophy as the WHEB Sustainable Impact Fund, however, focusing on the European region only, as opposed to having a global lens.
- Addition of an Impact Research Team consisting of three individuals – Kavitha Ravikumar (Senior Impact Analyst), Katie Woodhouse (Climate and Data Analyst) and Rachael Monteiro (Stewardship Analyst). Ravikumar was hired in December 2022. Woodhouse and Monteiro previously worked in other roles within the Manager, having joined in 2019 and 2020 respectively.
- Claire Jervis promoted to Associate Fund Manager in March 2023.
- WHEB has started working with Essentia Analytics, a behavioural analytics tool that aims to improve decision making through the analysis of past trades.
- Lonsec has not been advised of any further changes to the firm, investment team or process since the previous review.

### Lonsec Opinion of this Fund

#### People and resources

- Founded in 2009 by Ted Franks and Clare Brook, WHEB is a global sustainability ESG specialist applying a single investment process and strategy. The business is led by Chief Risk Officer (CRO) and Managing Partner, George Latham, who joined WHEB alongside Head of Research, Seb Beloe, in 2012 from Henderson Global Investors (‘Henderson’). Latham was the head of Henderson’s SRI ‘Industries of the Future’ investment team, a team essentially applying the current investment process utilised at WHEB, and effectively joined WHEB to reboot the investment capability.
- Latham, who has 26 years’ investment experience wears multiple hats at the boutique including overseeing the investment process, chairing the Investment Risk Committee and business development. Importantly, Latham is external to the investment team and as such, is not involved in the day-to-day stock research and portfolio construction decision making. Nevertheless, with his oversight role, Latham is still viewed as influential in the overall positioning and management of the Fund. Lonsec believes him to be of a high calibre. More specifically, Lonsec has a favourable view of Latham’s

deep experience in responsible investing, and more broadly, in applying this investment process.

- Franks is the Head of Investments and Lead Portfolio Manager and a partner in the firm, bringing 17 years’ investment experience with 14 years at WHEB. Within a relatively flat, consensus-driven decision-making approach, Franks is ultimately accountable for the Fund’s performance, being charged with stock selection and portfolio construction. Lonsec views Franks as a capable and passionate investor and regards him as a valuable resource in the team, conveying a sound investment philosophy and understanding of overall themes, individual holdings and portfolio positioning.
- Beloe, as Head of Research, is responsible for the integration of sustainability analysis within the investment process and leads the firm’s engagement activities. Beloe is a partner at the firm and brings 27 years’ industry experience, the bulk of which has been gained within sustainability investing, having previously been Head of SRI Research at Henderson. In Lonsec’s view, Beloe’s investment experience and leadership of the ESG focus is viewed as a key asset to the investment team and the Fund.
- Supporting Franks are Associate Fund Managers Ty Lee, Victoria MacLean and Claire Jervis. Lee has 18 years’ industry experience, including 12 years at WHEB, and has previously worked in corporate finance and consulting. MacLean joined WHEB in 2021 and has 11 years’ industry experience, having previously worked at Aberdeen Standard Investments as ESG and Impact Investment Director. Jervis joined WHEB in 2021, having previously worked at Barings as an Investment Specialist and ESG Champion. As Associate Fund Managers, Lee, MacLean and Jervis are essentially backup to Franks and, together with Beloe, are authorised to make portfolio management decisions and chair investment team meetings in Franks’ absence. Lonsec believes both Lee and MacLean are capable and experienced investors. That said, given MacLean is relatively new to the strategy and it is Jervis’s inaugural portfolio management role, Lonsec will look to build conviction in their integration into the team and contribution to the process in future reviews.
- Rounding out the investment team is Senior Analyst Ben Klufftinger. Team stability has been largely favourable over recent years with the most recent departure being Fund Manager Tim Dieppe, in 2016. With six investors responsible for the stock research effort, Lonsec notes the relatively small team has a high workload given the demands of the investment process and relative to the wider global equity peer group, the team also has a considerable impact reporting burden.
- The Impact Research Team was formed in 2022, comprising three individuals – Kavitha Ravikumar (Senior Impact Analyst), Katie Woodhouse (Climate & Data Analyst) and Rachael Monteiro (Stewardship Analyst). Ravikumar was hired in December 2022. Woodhouse and Monteiro previously worked in other roles within the Manager, having joined in 2019 and 2020 respectively. Lonsec views the formulation of the team to be positive. However, given it is still in its infancy, Lonsec will monitor how the team reduce analysts’ impact reporting burden in future reviews.

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- An Advisory Committee comprising largely external industry experts also contributes to the strategy through ESG thematic input and portfolio oversight. The group meets three times per year and while not seeking to advise on stock selection, the forum considers portfolio positioning and discusses sustainability trends and developments. Importantly, Lonsec notes the Committee can recommend a holding be sold if deemed inappropriate or at odds with the Fund's sustainability criteria. Further, the Committee may provide direction with respect to company engagement. This forum is chaired by Jayne Sutcliffe, non-executive Chair of WHEB. There are currently five members in the Committee, consisting of individuals with a diverse background in responsible investments including sustainable investment practitioners, and representatives of the not-for-profit and NGO sectors. Lonsec looks favourably on this group's contribution to the investment process and it is considered further evidence of WHEB's commitment to maintaining the ESG integrity of the investment approach.
- Lonsec views key person risk as relatively high and to reside with a few individuals, namely Latham, Franks and Beloe. As a small team within a boutique operation, the Manager is more susceptible to damage from a key departure than other teams with greater resourcing. While these individuals have significant tie-in given their equity holdings in the firm, Lonsec's rating for the Fund would be under review should the team experience a material departure.
- Lonsec judges alignment of interest to be reasonably high with Latham, Beloe and Franks, alongside Geoff Hall (ex-Chair of WHEB) and Jayne Sutcliffe (current Chair of WHEB), having a combined 40% ownership of the business and with a significant amount co-invested in the strategy. As such, these individuals do not have a typical long-term incentive structure tied to pre-defined performance outcomes of the Fund, rather their equity ownership is their sole form of variable remuneration. Lonsec considers the largely performance-driven remuneration structure for the investment team to create reasonable alignment of interest.
- Business profitability has gradually improved over the years, after an initial period of sluggish growth in assets under management (AUM). After becoming profitable in May 2018, WHEB's AUM continues to grow, with the firm managing over \$2.5bn as at 31 January 2023, which Lonsec is encouraged by and will be an area of focus in future review meetings.

### Research and portfolio construction

- The Manager's investment philosophy is framed around the concepts of 'sustainability', 'growth', 'quality' and 'valuation'. The strategy focuses on nine sustainable investment themes; five environmental (cleaner energy, environmental services, resource efficiency, sustainable transport, and water management), and four social themes (education, health, safety, and well-being). Individual stocks are selected through a 'bottom-up' fundamental research process, targeting companies providing solutions to sustainability challenges. The strategy invests in companies gaining at least 50% of revenue or profits generated by their activities within the Manager's nine sustainability themes, but in practice, exposure is over 80% on average across the portfolio. Lonsec looks favourably on WHEB's transparency around disclosure in this respect, believing it to be an important credibility test of the investment process and a material consideration for investors.
- The Manager states the investment universe as 500 companies, with a market capitalisation above US \$2bn. Lonsec views the sustainability themes as wide-ranging and investable, enabling the Manager to gain exposure to a broad range of companies and sectors within the constraints of a sustainability prism. While the themes are unchanged over the lifetime of the strategy, Lonsec notes that WHEB has had sufficient flexibility to incorporate more recent sustainability developments into the investment approach, reflecting the Manager's recognition of an ever-evolving sector.
- Pleasingly, the investment team regularly conducts research within the themes to identify new ideas. Although more recently the Manager has sought to explore thematic research within the context of a cluster of stocks on an ad-hoc basis, rather than more broad-based annual thematic research. Lonsec considers this to be somewhat of a natural evolution of the process, given the majority of the thematic research done previously still remains relevant today. That said, Lonsec believes this to be a differentiating feature of the investment process aiding in idea generation and improving the Manager's ability to identify sustainability trends at an earlier stage than competitors applying traditional global equity research approaches. Lonsec will continue to test this area of the Manager's process during future reviews.
- The investment team is structured with all six members providing stock analysis. Each analyst typically covers around 10-15 stocks and works under a generalist framework, as opposed to sector specialisation often practiced by many global equity peers. Within this team-based approach and relatively non-hierarchical structure, Lonsec looks favourably on the role of Franks as the Head of Investments and Lead Portfolio Manager, having final decision-making approval on stocks, which seeks to improve overall accountability. Further, Beloe as Head of Research aids in directing analysts towards areas of research focus and assists in prioritising the team's workflow. Lonsec believes there is a reasonable depth of stocks under coverage from which to build portfolios. That being said, Lonsec notes that the addition of WHEB Environmental Fund in December 2021 and the iM

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Global Partner Sustainable Europe Fund in July 2022 could add additional team pressures. Lonsec will monitor the team's ability to adequately manage the research capabilities in future reviews.

- The team seeks to mitigate behavioural bias by firstly appointing a separate analyst to take on the idea for further research, following the initial approval by the Investment Committee; and secondly, by rotating stock research ownership among analysts every eighteen months. While this undoubtedly creates more work for a relatively small team, Lonsec believes this maintains the efficacy of the company research discipline and may improve debate within the team.
- Lonsec regards the Manager's investment approach as research-intensive and proprietary in nature. While the Manager has the flexibility to access external research to supplement and test internal conclusions, given the specialised nature of the Manager's investment philosophy and process, it is highly dependent on the investment skill and expertise of its investment personnel. The heightened ESG and sustainability focus are not areas with deep levels of investment talent globally, although this may leave the Manager exposed to the risk of losing personnel. This also places emphasis on the Manager's ability to capture its proprietary research on appropriate systems. Lonsec believes the Manager has structures in place to manage this risk.
- ESG research is a central feature of all aspects of the Manager's research approach, e.g. from identification of long-term sustainability trends to measuring a company's management and corporate governance rigour. The Manager looks to multiple avenues to gain this ESG edge including via their Advisory Committee. A differentiating element of the Manager's process is the utilisation of a proprietary tool to measure the positive impact generated by a company's products and services, known as the Impact Engine. The Impact Engine examines the overall positive impact on society generated by a company's products and services across various dimensions, with the final output being an impact intensity score. Lonsec views this to be a differentiated element of the investment process and a pragmatic tool to measure the overall positive impact created by each company.
- Analysts must determine a fundamental score for each company, seeking to assess a company's business strength, quality (both sustainable and financial) and market position, and combine this with an expected valuation over a three to seven-year investment time horizon. Analysts have the freedom to choose the valuation metrics they believe to be the most suitable for each investment case. Lonsec believes that the use of flexible valuation tools and methodologies, dependent on the industry or sector, may yield more informed outcomes, although the trade-off is a lack of both uniformity and standardisation of output. Moreover, this freedom may also result in the 'cherry picking' of methodologies for favoured companies. That said, the Manager seeks to overcome this with the analyst rotation of stock coverage.
- Nonetheless, compared to some competitors, Lonsec previously observed that the research process has less extensive financial modelling of companies. That said, WHEB has recently implemented Canylst to provide financial modelling assistance to the team, which they can adapt and assists in the decision-making processes. While a positive development, given the Manager's long-term investment time frame, Lonsec believes that the Manager is more interested in understanding the return drivers of a company as they relate to sustainability and as such, financial modelling is considered to be a less important aspect of the Manager's process and relevant insofar as it helps determine when to enter or exit a holding. Within this approach, Lonsec observes that the Manager's valuation philosophy will tend to exhibit a higher tolerance for companies trading at a higher forward price to earnings multiple, potentially reflecting the high expected growth rates of the companies identified. Lonsec will continue to test the Manager's stock valuations approach to rebuild conviction in this aspect.
- Lonsec notes that in recent years, the Manager has implemented several enhancements to the process, specifically Canylst, Essentia Analytics and the addition of the Impact Research Team. Lonsec is view the inclusion of these enhancements positively.
- The fundamental company scores and relative attractiveness of each stock in the portfolio leads to an overall conviction score, either A, B or C, which influences eventual position sizing, with maximum limits depending on the score. This is accompanied by a determination of the relative attractiveness of the company's valuation. Only companies achieving positive appraisals on both aspects are considered for investment. Lonsec is pleased to observe a reasonable linkage between the team's stock research rankings and subsequent conviction scores, with that of the portfolio construction process, believing it should engender greater repeatability of outcomes.
- Not unlike most responsible investing peers, the philosophy of the approach leads to structural biases relative to a market-wide benchmark. In this case, the thematic approach results in a structural underweight, and often absence from, certain sectors such as financials and energy, and a structural overweight in sectors such as healthcare and industrials.
- Stocks are sold when there is a change in fundamental view including a significant change in management or ESG assessment, or the valuation becomes unattractive. Nevertheless, Lonsec will continue to monitor the Manager's sell discipline, believing the combination of a longer-term investment horizon, intensive nature of the company research process, often focusing on the wider impact and sustainability of a company's offering, and flexible valuation assessment could lead to a more relaxed sell discipline compared to some global equity peers.

### ESG integration

- Lonsec's ESG integration assessment considers how rigorous, robust and structured the ESG process for the Fund is as well as how well it integrates into the overall investment process and the Manager's overall policy and reporting framework. The assessment is not intended to assess the underlying holdings

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of the Fund's portfolio or the Manager's adherence to any form of impact, green/sustainable or ethical standards.

- At the corporate level Lonsec views the Manager's overall ESG policy framework and disclosure as well-ahead of peers. The Manager has an articulated commitment to the integration of ESG within their investment process with clear evidence of public positioning and policy framework. The responsible investing policy, stewardship report and engagement policy are freely available on the firm's website. Further, the proxy voting policy is published as part of the annual stewardship report. The level of disclosure with respect to the Manager's proxy voting policy and voting outcomes is considered industry-leading with particular credit paid to the clear inclusion of ESG factors into proxy decision making. The engagement policy provides a robust framework and reporting on engagement outcomes is ahead of peers. The Manager also has a clear commitment to net zero carbon emissions and pleasingly has policies in place for portfolio emissions as well as operational emissions.
- The Manager has indicated that their Responsible Investment style is 'Impact'. Lonsec highlights that this ESG review is not a measure of the impact of either the companies in the portfolio or the portfolio itself is but is an assessment of the process the Manager undertakes to assess the degree to which Environmental, Social and Governance factors are considered when assessing investment opportunities. This may be a completely separate and additional capability on top of any impact positive screening. Lonsec recommends investors review the Lonsec Sustainability report for this product, if it has been contracted by the Manager, to assist with measuring portfolio impact. With a primary ESG style of 'Minimum Standards', managers typically use ESG scores (internal proprietary or external provider) to determine a hard threshold below which they will not invest in a company. Investors need to be aware of the cut off level applied, what scale is used and what it means in practice to ensure it aligns with their expectations. Note that such an approach does not automatically ensure that the resulting portfolio will adhere to any particular structure or provide any particular level of ethicalness, greenness or sustainability.
- Within the management of this specific Fund Lonsec notes:
  - While the Manager is sourcing data for investment analysis purposes they do not access external data in a structured manner, instead relying on collecting its own ESG data through company web sites and engagement. Data is accessed for appropriate compliance verification purposes. Structured storage of that data facilitates sharing through the organisation.
  - There are clear signs of robust ESG elements as a core component of the Manager's research process, with ESG materiality frameworks applied as part of the research effort. Research is conducted by analysts as part of their regular review of companies. There is less structure around calibration of outcomes as the process

does not produce an internal score or measurable metric.

- There are defined links from the Manager's research to the stock selection process. This adjustment is applied in a standardised and structured manner.
- There is monitoring of ESG characteristics of the portfolio across a number of ESG and sustainability dimensions, and a clear limit framework in place.
- The Manager demonstrated a strong engagement program and a structured approach. Engagements are documented with clear objectives set and outcomes tracked. The Manager tracks engagements, however, has room to improve on how it monitors company performance through time, to verify the success or otherwise of their engagement efforts. The Manager is able to demonstrate clear ESG based engagement outcomes.
- Portfolio transparency is industry leading and ESG based compliance monitoring is seen as appropriate. ESG governance frameworks are embedded across the organisation and pleasingly voting is controlled by the portfolio manager for the Fund.

### Risk management

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

### Capacity management

- The Manager managed A\$2.5bn as at 31 January 2023. Estimated capacity for WHEB's sustainable impact strategy has been tentatively set at US\$8bn, with further analysis to be conducted once the

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strategy reaches US\$3bn, and accordingly, at this stage has sufficient headroom to grow. Lonsec is pleased with the relatively conservative capacity target given the small to mid-cap bias of the Fund which should serve to preserve the appeal and longevity of the offer. Lonsec will continue to monitor market support for WHEB's strategy, FUM and its management of capacity in future reviews.

### Fees

- Lonsec notes that the Fund's AFC of 1.35% p.a. is moderately higher than its peers. Furthermore, the fees for the Fund are charged on overall FUM.

### Product

- The Fund is a global equity strategy that invests in stocks across the market cap spectrum. Hence, Lonsec does not consider it to be operationally challenging to implement. Additionally, the Manager employs high quality 'tier 1' service providers. The Fund uses an independent Responsible Entity ('RE') and Lonsec notes this RE relationship has been stable since the inception of the Fund and there have been no issues. The buy/sell spread is 0.25%/0.25% and as net transaction costs disclosed under RG97 reporting regime are 0.00% p.a.

### Performance

- The Fund's internal investment objective is to outperform the MSCI World Index ('the Benchmark') by 3% p.a. over rolling three-year periods (before fees). Lonsec is pleased the Manager aims for an excess return objective against a reference benchmark as a means of increasing accountability for and measuring performance outcomes. However, it is worth noting the sector composition of the Fund's investment universe can be significantly different from that of the Benchmark, with the Fund tending to be overweight in the healthcare, industrials and materials sectors.
- While the Fund has an inception date of 2007, the long-term track record of the Fund is associated with Hunter Hall Investment Management and less relevant. The WHEB Listed Equity Strategy was implemented in the Pengana WHEB Sustainable Impact Fund from 1 August 2017.
- All performance figures in the commentary below are referenced on an after fees basis for the period ending 31 January 2023.
- Over the three and five-year periods, the Fund generated returns of 3.6% p.a. and 6.5% p.a., respectively to underperform the Benchmark by 2.2% p.a. and 3.0% p.a., respectively. The Fund also underperformed the thematic peer median by 0.6% p.a. and 1.9% p.a., respectively, thus falling short of its return objective. Performance outcomes over these period indicate the risk-adjusted returns are lower than the peer median (as indicated in the Sharpe Ratio figures).
- Over the last 12-months, the Fund returned negative 8.3%, underperforming the Benchmark and peers by 0.8% and 0.8% respectively. Top contributors to performance over the last 12-months included positions in First Solar, SolarEdge and Trane Technologies while key detractors included Kion Group, HelloFresh and Daifuku. While noting significant sector and style divergences versus

the Benchmark, Lonsec will continue to test the Manager's ability to meet its investment objective as well as the team's skill in stock selection and sell discipline during future reviews.

### Overall

- Lonsec has downgraded the Fund's rating to '**Recommended**' following this year's review. Lonsec continues to believe that the team exhibits a strong philosophical commitment to ESG investing, with a superior level of transparency and accountability governing the investment stewardship of the Fund.
- Weighing on Lonsec's conviction, however, are the previously highlighted weaknesses of a lightly resourced team, especially given the specialised investment universe, less rigorous valuation disciplines and relatively less diversified portfolio. While acknowledging the Manager's efforts in progressively addressing these aspects, Lonsec also notes recent product developments within the Fundamental Thematic sub-sector, which has increased the collective strength of the peer group relative to the Fund. Weaker relative performance over the medium term also weighs on Lonsec's conviction.

### People and Resources

#### Corporate overview

WHEB is a specialist London-based ESG investor focused on the opportunities created by the global transition to more sustainable, resource-efficient and energy-efficient economies. The firm is privately managed with three partners and the ex-Chairman holding a combined 40% of equity, with the remainder allocated to an external investor (WHEB Group). Pengana Capital Group is a listed equities manager founded in 2003 and based in Sydney. The Manager has over \$3.0bn in FUM across equities and alternative strategies as at 31 January 2023. Pengana assumed ownership of the Fund following its merger with the previous investment manager, Hunter Hall International Ltd. Pengana Capital Group is an ASX listed entity (ASX: PCG). Pengana appointed WHEB to manage the underlying assets of the Fund in August 2017. WHEB was formed in 2009 and managed approximately \$2.5bn in assets in its global sustainability equity strategy as at 31 January 2023.

# Pengana WHEB Sustainable Impact Fund

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## Size and experience

NAME	POSITION	EXPERIENCE INDUSTRY / FIRM
GEORGE LATHAM*	CRO AND MANAGING PARTNER	26 / 10
TED FRANKS	PARTNER, HEAD OF INVESTMENT, LEAD PORTFOLIO MANAGER	17 / 14
SEB BELOE*	PARTNER, HEAD OF RESEARCH	27 / 10
TY LEE	ASSOCIATE FUND MANAGER	18 / 11
VICTORIA MACLEAN	ASSOCIATE FUND MANAGER	12 / 1
CLAIRE JERVIS	ASSOCIATE FUND MANAGER	8 / 2
BEN KLUFFTINGER	SENIOR ANALYST	23 / 7

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

A six-person investment team is responsible for WHEB's thematic and company research process. This resource ultimately reports to George Latham, Managing Partner and CRO. Latham has 26 years' investment experience including ten years at WHEB. Much of Latham's experience has been gained directly within Responsible Investment strategies having occupied previous roles as Head of Henderson Global Investor's SRI team and also in a consultant capacity in establishing Threadneedle's SRI capability. Latham's multifaceted role includes overseeing the investment process, chairing the Investment and Risk Committee, and leading business development.

Ted Franks is a Partner and the Lead Portfolio Manager of the Fund bringing 17 years' responsible investment industry experience. Franks is a founder of the firm and has the longest tenure in WHEB's sustainable equities approach, having been involved since its launch in 2009. He is fully accountable for stock research, selection and fund positioning. Previous positions include sector analyst roles in the renewable energy and utilities sectors at both Dresdner Kleinwort and KPMG.

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

The rest of the investment team consists of Associate Fund Managers Ty Lee, Victoria MacLean, Claire Jervis, and Senior Analyst, Ben Klufftinger. Lee, MacLean and Jervis possess 18,12 and eight years' investment experience respectively. In addition to providing company research, they also assist Franks in the management of the Fund. Klufftinger joined the team in 2015 and has 23 years' investment experience having previously worked at both Macquarie Equity Research and Citigroup Equity Research as a Senior Analyst.

An advisory committee also contributes to the strategy through ESG thematic input and risk oversight. The group meets quarterly to consider positioning and

discuss sustainability trends and developments. The current members are:

- Jayne Sutcliffe, Non-Executive Chair of WHEB;
- Alice Chapple, Founder and Director of Impact Value;
- Kingsmill Bond, New Energy Strategist at Carbon Tracker;
- Ray Dhirani, Head of Sustainable Finance WWF; and
- Carole Ferguson, Managing Director at Industry Tracker.

## Remuneration / Alignment of interests

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

## Research Approach

### Overview

INVESTMENT STYLE	GARP
RESEARCH PHILOSOPHY	A COMBINATION OF BOTTOM-UP, FUNDAMENTAL RESEARCH WITH A TOP-DOWN / THEMATIC OVERLAY
TARGET COMPANY	A QUALITY, WELL-MANAGED COMPANY WITH GOOD ESG PRACTICES, AND STRONG AND ENDURING GROWTH CHARACTERISTICS OPERATING IN A MARKET UNDERPINNED BY A LONG-TERM SUSTAINABILITY THEME THAT IS UNDERVALUED.
NO. STOCKS IN UNIVERSE	500
NO. STOCKS RESEARCHED	400
RESEARCH INPUTS	VARIOUS. THEMATIC RESEARCH. FUNDAMENTAL COMPANY RESEARCH, INCLUDING MANAGEMENT MEETINGS, FINANCIAL ANALYSIS, INDUSTRY RESEARCH, COMPETITOR ANALYSIS.
BROKER RESEARCH	LIMITED – USED TO CONSIDER ASSUMPTIONS AND CONCLUSIONS ONLY
VALUATION OVERVIEW	VARIOUS DEPENDING ON COMPANY AND SECTOR E.G. BOOK VALUE, RELATIVE P/E

### Universe filtering

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

The Manager also excludes companies with a market cap of less than US\$2bn. This reduces the universe to approximately 500 stocks for consideration.

ANALYST: CONOR GALVIN | APPROVED BY: HONG HON



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## Research process

The team conducts sub-sector research to explore areas within the overarching themes more fully and compare identified companies for their relative attractiveness. While increasingly a smaller part of the team's investment process, thematic reviews are detailed with analysts incorporating various inputs including company reports, industry reports, NGO reports, government and regulatory policies, and media reports. Analysts also undertake quantitative analysis at this point to determine the relative 'quality' of the companies including earnings and profitability analysis, debt positioning and ESG attributes.

The extent of a company's positive impact on society is measured through the Manager's proprietary Impact Engine which evaluates the level of positive impact of a company's products and services through various dimensions. The output of the Impact Engine is an impact factor that is multiplied by a company's revenues for that particular product or service to give an overall impact intensity score.

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

- market attractiveness: e.g. relative market growth, barriers to entry;
- competitive position: company market share, market fragmentation or concentration;
- value chain analysis: companies buying power, its relationship with its suppliers and buyers;
- growth strategy: organic or M&A opportunities, achievability of targets; and
- the quality of management: historical track record, risk monitoring, governance and ownership structure.

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

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

## Portfolio Construction

### Overview

FUND BENCHMARK	MSCI WORLD TR NET AUD UNHEDGED
RETURN OBJECTIVE (INTERNAL)	TO OUTPERFORM THE BENCHMARK BY 3% P.A. OVER ROLLING THREE-YEAR PERIODS (BEFORE FEES)
RISK OBJECTIVE (INTERNAL)	EXPECTED TRACKING ERROR (4-7% P.A.)
PORTFOLIO DECISIONS	LEAD PORTFOLIO MANAGER
STOCK SELECTION	BOTTOM-UP
TOP-DOWN INFLUENCE	SUSTAINABILITY THEMATIC OVERLAY. SEEK REGIONAL NEUTRALITY.
TYPICAL NUMBER OF HOLDINGS	40-60
MARKET CAPITALISATION BIAS	SMALL / MID
EMERGING MARKETS EXPOSURE	GENERALLY NIL (MAX 3%)
EXPECTED PORTFOLIO TURNOVER	20% P.A.
OBSERVED ACTIVE SHARE	>95%
% OF PORTFOLIO IN TOP 10 HOLDINGS	31% (JANUARY 2023)

### Decision making

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

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

Position sizing is driven largely by the Portfolio Managers' consideration of a stock's thesis, analyst conviction and valuation, subject to the strategy's constraints. A-rated stocks are assigned the highest conviction in the portfolio and will typically have a portfolio weighting of around 2.9%. B-rated stocks are held in a banding around 2.2%, and C-rated stocks are closer to 1.5%. Thus, the portfolio is skewed towards A and B-rated holdings.

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

### Buy / sell decision

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

ANALYST: CONOR GALVIN | APPROVED BY: HONG HON

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## Risk Management

### Risk limits

SEPARATE RISK MONITORING	YES
STOCK LIMIT	MAXIMUM 5% (HARD)
SECTOR LIMITS	NO LIMITS
EXPOSURE TO SINGLE THEME	MAXIMUM 30%
REGIONAL LIMITS (E.G. NORTH AMERICA)	KEPT CLOSE TO THE AVERAGE OF THE MSCI WORLD INDEX, MSCI WORLD MID-CAP AND WHEB INVESTABLE UNIVERSE
MINIMUM MARKET CAPITALISATION	>US\$2BN
CASH LIMIT	MAXIMUM 5%

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

### Risk monitoring

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

## Risks

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

### Concentration risk

The Fund will typically invest in 40-60 stocks and typically is concentrated to a small number of sectors. The Manager is expected to build a portfolio that may vary markedly from the benchmark (e.g. sector concentration). Accordingly, investors should be mindful that the portfolio, and therefore its performance may vary markedly from the benchmark.

### Currency risk

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

### Market risk

Investments in equity markets are subject to numerous factors which may have an impact on the performance of an investment (both positive and negative). Unexpected changes in economic, technological, structural, regulatory or political conditions can have an impact on the returns of all investments within a particular market. Further, the Fund has a bias towards investing in small and mid-cap companies. Companies

with smaller market capitalisations generally have greater market risk (i.e. Beta). Accordingly, investors should be mindful of the potential for sharper movements in the market price of these investments.

### Liquidity risk

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

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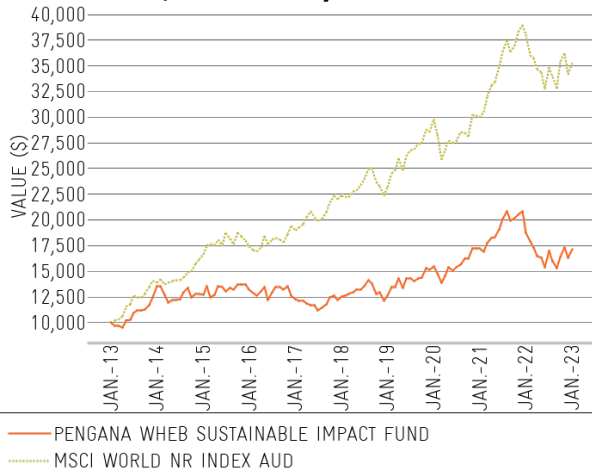
## Quantitative Performance Analysis - annualised after-fee % returns (at 31-1-2023)

### Performance metrics

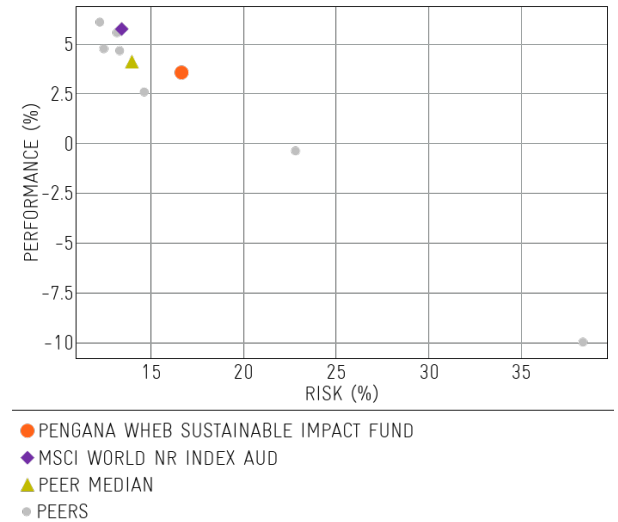
	1 YR		3 YR		5 YR		10 YR	
	FUND	PEER MEDIAN	FUND	PEER MEDIAN	FUND	PEER MEDIAN	FUND	PEER MEDIAN
PERFORMANCE (% PA)	-8.28	-9.13	3.57	4.12	6.46	8.37	5.56	12.34
STANDARD DEVIATION (% PA)	20.89	17.20	16.66	13.99	15.55	12.08	14.57	11.33
EXCESS RETURN (% PA)	-0.81	-1.67	-2.19	-1.26	-3.04	-0.14	-7.85	-0.48
OUTPERFORMANCE RATIO (% PA)	41.67	41.67	44.44	47.22	45.00	51.67	42.50	51.67
WORST DRAWDOWN (%)	-18.25	-16.91	-26.58	-24.44	-26.58	-22.30	-26.58	-21.29
TIME TO RECOVERY (MTHS)	NR	NR	NR	NR	NR	NR	NR	NR
SHARPE RATIO	-0.47	-0.64	0.18	0.24	0.35	0.64	0.27	1.01
INFORMATION RATIO	-0.10	-0.33	-0.27	-0.15	-0.41	-0.02	-0.75	-0.07
TRACKING ERROR (% PA)	8.41	6.37	8.09	8.00	7.42	7.42	10.50	4.86

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

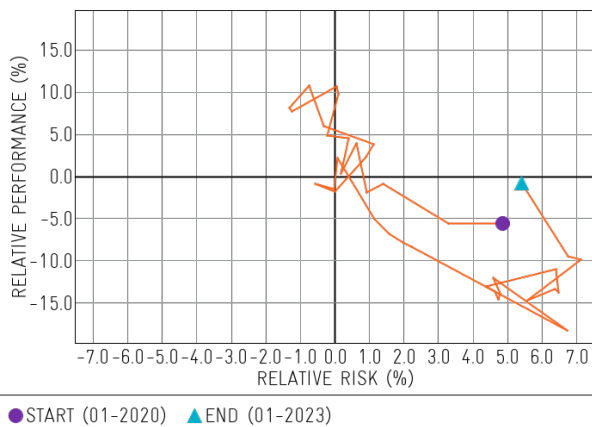
### Growth of \$10,000 over 10 years



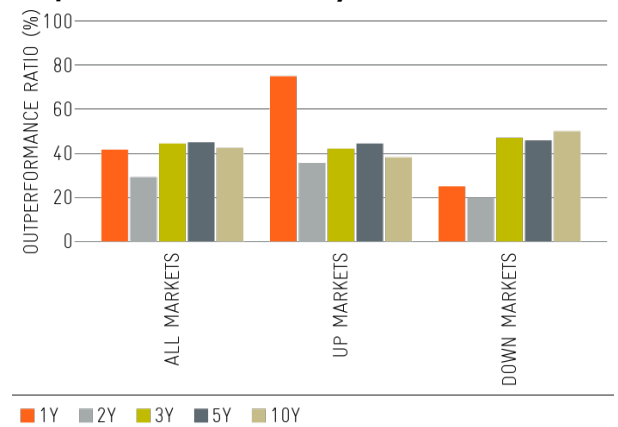
### Risk-return chart over three years



### Snail trail



### Outperformance consistency



ANALYST: CONOR GALVIN | APPROVED BY: HONG HON

## Pengana WHEB Sustainable Impact Fund

### Glossary

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

### About Lonsec

Lonsec Research Pty Ltd (Lonsec) is an investment research house with specialist areas of expertise, that was originally established in 1994 and the current entity was registered on 23 June 2011. From 1 July 2011, Lonsec became a fully owned subsidiary of Lonsec Fiscal Holdings Pty Ltd, a privately owned entity with a multi-brand strategy of providing leading financial services research and investment execution. Lonsec believes that professional financial advisers need informed opinions on the best investment strategies and financial products to provide real value for their clients. To meet this need, Lonsec has in place an experienced research team, which draws on a robust research process to undertake in-depth assessment of managed fund products.

### Analyst Disclosure and Certification

Analyst remuneration is not linked to the research or rating outcome. Where financial products are mentioned, the Analyst(s) may hold the financial product(s) referred to in this document, but Lonsec considers such holdings not to be sufficiently material to compromise the rating or advice. Analyst holdings may change during the life of this document. The Analyst(s) certify that the views expressed in this document accurately reflect their personal, professional opinion about the matters and financial product(s) to which this document refers.

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