Quarterly Commentary

March 2023

PELLA

RESPONSIBLE INVESTING

Investment Manager

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Message from the CIO

Jordan Cvetanovski
CIO and Portfolio Manager

The Pella Global Generations Fund is notably overweight European companies and underweight US companies relative to its benchmark. This does not reflect Pella's perspective of those economies and is rather an outcome of where we identify companies that best reflect Pella's fundamental investment criteria.

Some of the more critical criteria Pella applies to investment candidates include maximising the growth-valuation relationship and ESG credentials, while minimizing leverage and carbon intensity. Here we demonstrate that these criteria are currently more readily satisfied by companies listed in Europe than by those listed in the US.

Growth-Valuation

The European market is trading on a lower price to earnings (PE) multiple than the US market. However, these data points tell us little due to the limitations of PE as a valuation method, coupled with different market compositions and growth rates.

To overcome these issues, Pella's valuation process applies a free-cash-flow yield to growth ("FCF-to-G") framework, which informs us of the amount of growth required to justify a given free-cash-flow yield and level of risk. To account for the different European-US market structures, in this analysis we apply the FCF-to-G framework at the sector level.

Figure 1 is Pella's FCF-to-G analysis for several sectors in Europe and the US. It includes eight of the eleven GICS sectors, with financials, real estate, and utilities excluded due to their idiosyncratic features making them often inappropriate for this analysis.

The key points for interpreting the chart are:

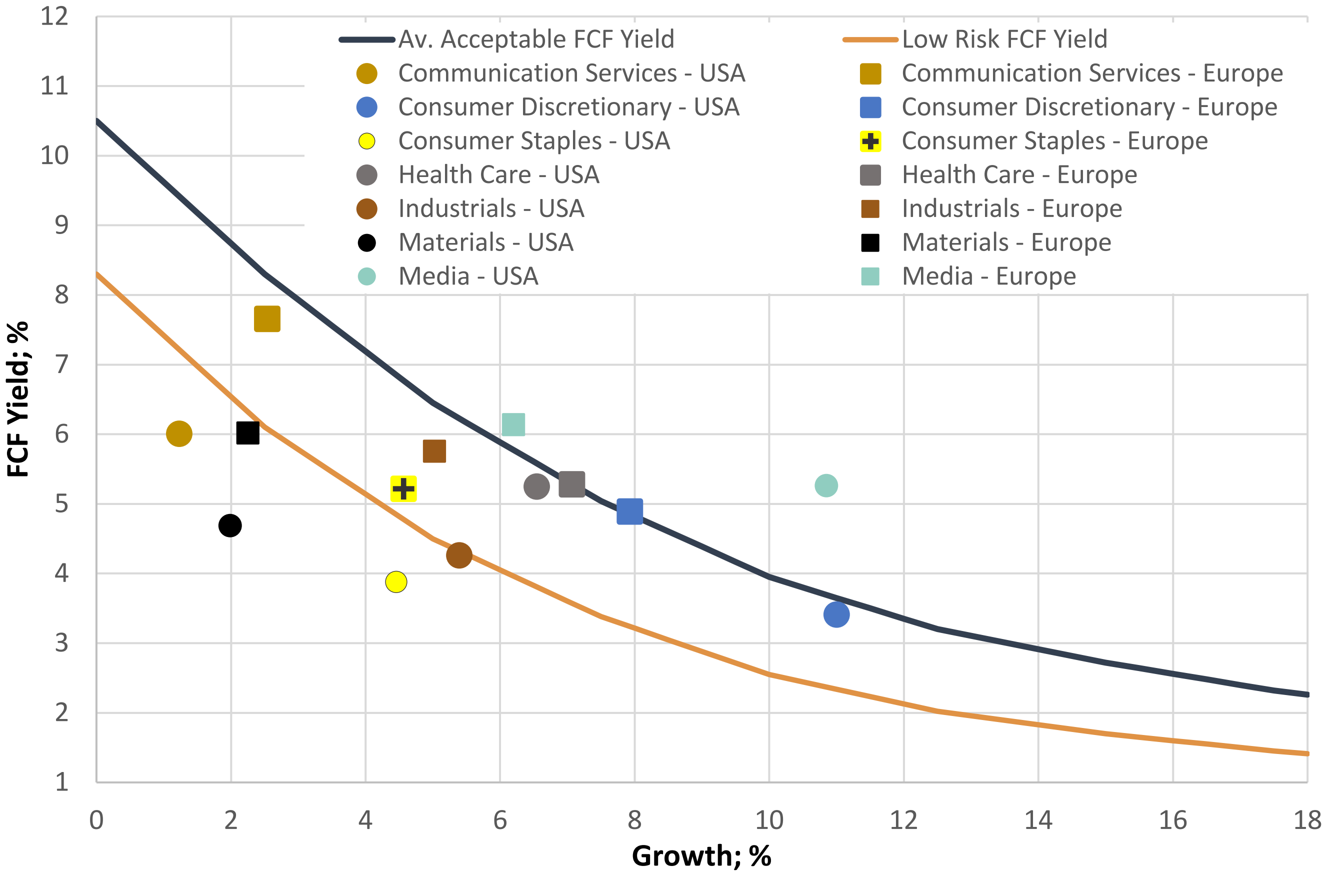
- Each colour represents a different sector,
- The dots represent the US,
- The squares represent Europe.

Each point on the chart represents the current FCF-to-G relationship for that sector. For example, the US Communication Services sector (orange dot) is currently trading on a 6.0% FCF yield and offers growth of 1.2%, meanwhile the European Communication Services sector (orange square) is trading on a 7.7% FCF yield and offers growth of 2.5%.

The way to interpret the data is that dots/squares that are higher and to the right represent better value than dot/squares that are lower and to the left of the chart. The solid lines represent Pella's target FCF-G relationships (given the risk level) and are helpful tools to judge relative value, with dot/squares above the lines representing superior value to those below the lines.

Pella's observation (summarised in Table 1) is that every European sector except for Media offers superior value to their US counterparts, while the differential between the European and US Media sectors is miniscule.

Figure 1 – Sector FCF yield Vs. growth relationship



Source – Pella Funds Management

The analysis removes Interactive Media & Services, Advertising, and Broadcasting from the Communication Services segment and groups those industries into Media, leaving telcos, wireless telcos, cable companies, satellite companies in the Communication Services segment. Pella's thinking is that the media businesses have materially different economics to the telcos and lumping together materially distorts results.

Table 1 – Result summary

Colour	Sector	Comparison of Europe and US valuation to growth
	Communication Services	Europe offers materially superior value
	Consumer Discretionary	Europe offers slightly better value
	Consumer Staples	Europe offers materially superior value
	Health Care	Europe offers slightly better value
	Industrials	Europe offers materially superior value
	Materials	Europe offers materially superior Value
	Media	US offers superior value

Source – Pella Funds Management

The above analysis is based on reported free cash flow (FCF), excluding share-based compensation (SBC), which the market treats as a non-cash item. However, Pella's perspective is that SBC is a real expense and should be incorporated into FCF.

Table 2 illustrates the aggregate SBC to FCF by sector over the past three years. For example, SBC is equal to 46% of total FCF for the US Consumer Discretionary sector and 1.3% of FCF for the European Consumer Discretionary sector. The table demonstrates that SBC as a percent of

FCF is materially larger for US companies than for European ones.

Table 2 – SBC/FCF [1]

Sector	Europe	USA
Communication Services	0.4%	4.0%
Consumer Discretionary	1.3%	46.3%
Consumer Staples	1.9%	4.2%
Energy	0.5%	0.6%
Financials	0.8%	3.6%
Health Care	3.6%	5.9%
Industrials	0.9%	6.9%
Information Technology	4.6%	15.0%
Materials	0.6%	2.8%
Media	2.9%	29.1%
Real Estate	0.3%	5.2%
Utilities	2.4%	n/a
Total	1.4%	9.4%

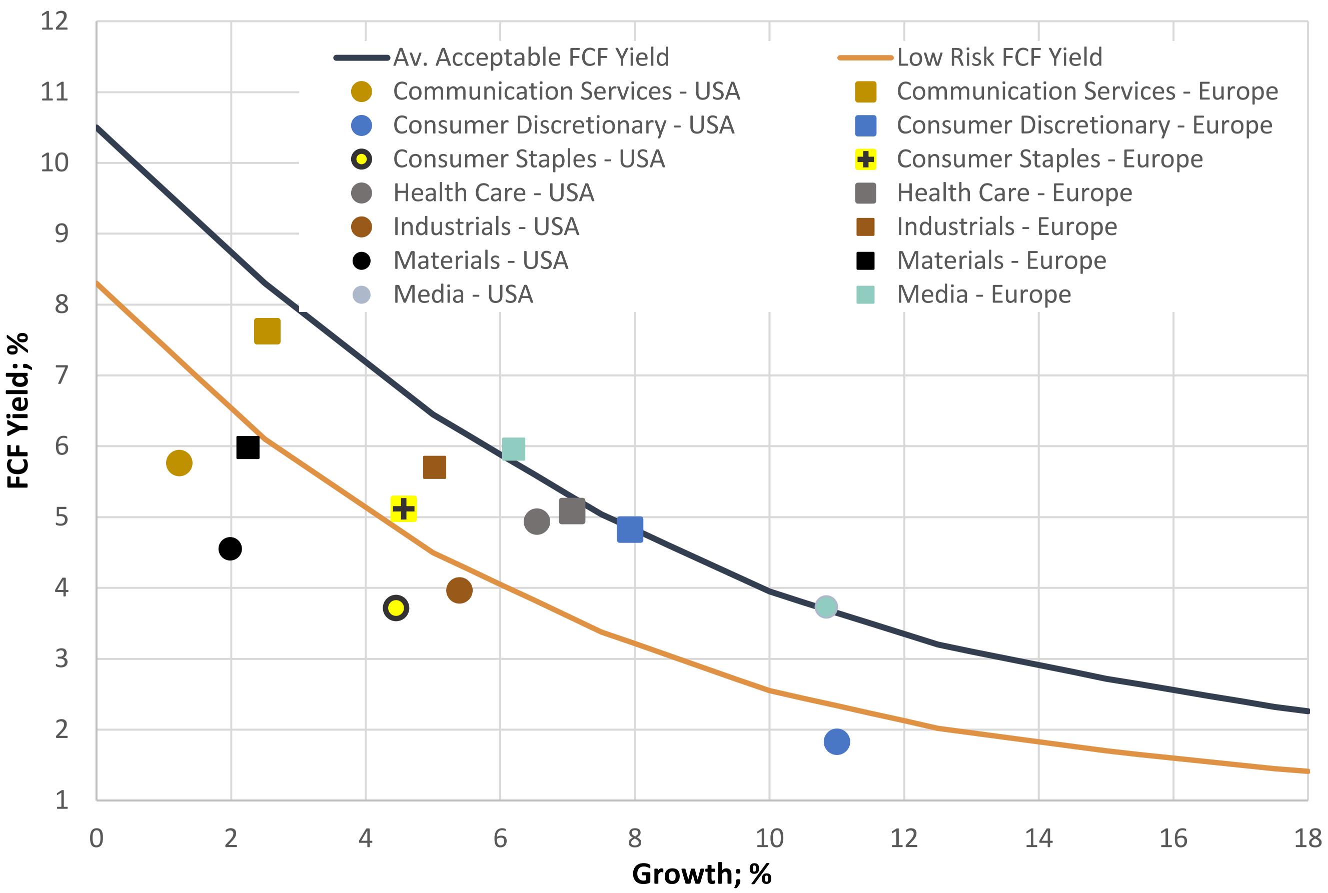
Source – Pella Funds Management using Factset data

(1) Share-Based Compensation = aggregate SBC over the last three financial years, Free-Cash-Flow = aggregate FCF over the last three financial years

Figure 2 illustrates the FCF-to-G relationships with FCF adjusted for SBC. Post the adjustment every European sector offers a superior FCF-to-G relationship than their US peers, albeit with Health Care and Media being close. Based on this analysis, Europe clearly offers superior value to the US.

Additionally, it is important to highlight the number of dots that are below our absolute desired valuation level (the solid curve), indicating that the US market is expensive in an absolute as well as relative sense.

Figure 2 - Sector FCF yield Vs. growth relationship (adjusted for SBC)



Source – Pella Funds Management

The above theoretical analysis is also reflected in empirical corporate behaviour. In recent times several European-listed companies have chosen to move their listing to the US in search of a higher valuation multiple. Examples include CRH (construction materials), Linde (industrial gases), Flutter Entertainment (online gambling), Ferguson (wholesale distributor), Abcam (biotech tools), and ARM (semiconductor business).

Pella sympathises with companies that recognise they will get a higher valuation multiple in the US than in Europe. However, it would be irrational for Pella to follow suit and pay more for a company because it is listed in the US, rather than Europe.

Based on Pella's FCF-to-G framework and corporate behaviour, Europe offers superior value to the US.

Leverage

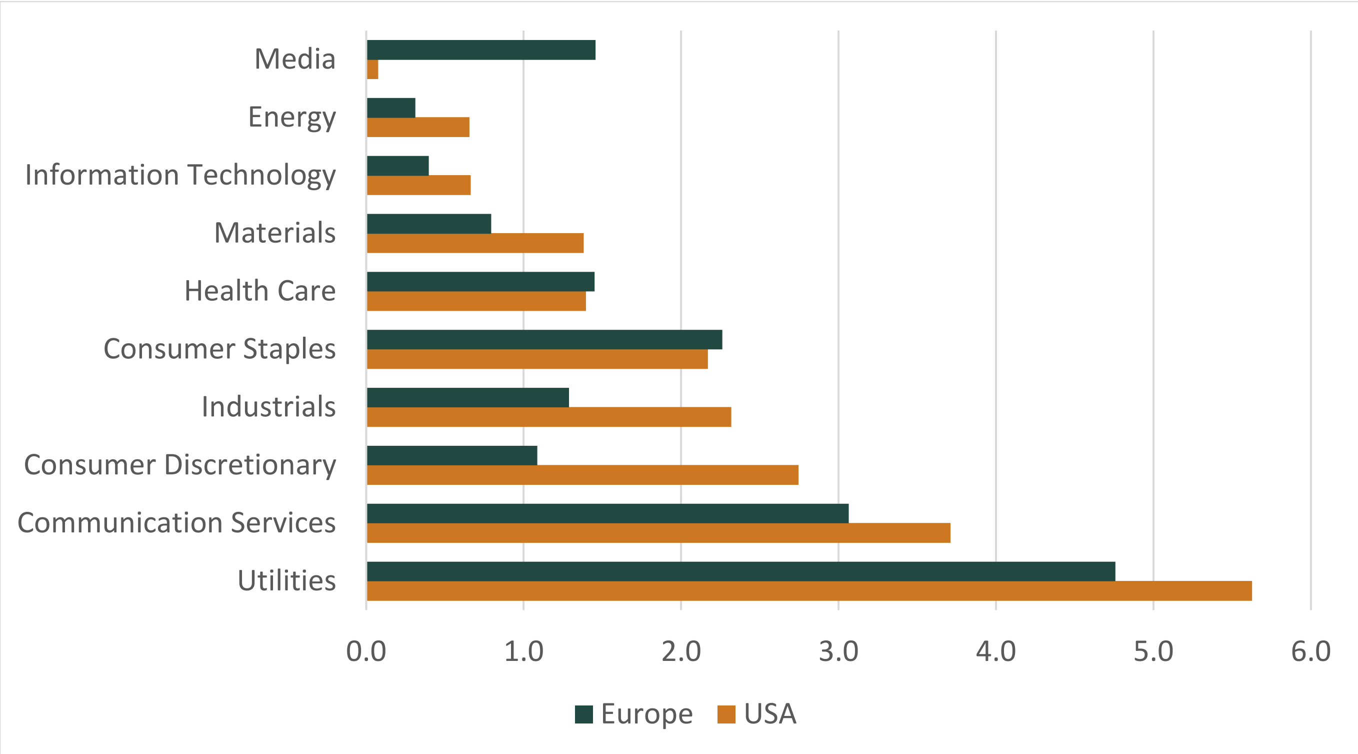
Pella seeks to invest in companies with minimal leverage.

Figure 3 illustrates the leverage for European and US sectors, excluding Financials and Real Estate, which don't lend themselves well to measuring leverage using net debt/EBITDA.

The chart demonstrates that US companies have more leverage than their European counterparts in all sectors except for Media, Consumer Staples, and Health Care, with the latter two being broadly inline. Further, the Media sector should not be over-emphasised as there are only seven European Media companies and that sector's leverage ratio is materially influenced by just two companies, WPP and Adevinta.

This analysis indicates that European companies have less leverage than their US counterparts.

Figure 3 – Leverage (Net debt/EBITDA) by sector



Source – Pella Funds Management using Factset data

ESG & Carbon Intensity

ESG is another key input in Pella's investment analysis. Table 3 summarises the MSCI ESG score for each sector. It demonstrates that virtually every European sector has a superior MSCI ESG score to its US counterpart. The one exception is Health Care, which is lineball.

Based on this dataset, European companies have superior ESG to their US peers.

Table 3 – MSCI ESG Score by Sector

Sector	Europe	USA
Communication Services	64	54
Consumer Discretionary	56	52
Consumer Staples	60	55
Energy	63	56
Financials	61	51
Health Care	57	58
Industrials	61	55
Information Technology	70	57
Materials	57	55
Media	60	45
Real Estate	73	62
Utilities	75	67
Total	61	55

Source – Pella Funds Management using MSCI ESG data

Pella also considers the carbon intensity of its investments and targets a portfolio with a carbon intensity that is at least 30% lower than Pella's benchmark. Table 4 summarises the sectoral carbon intensity in Europe and the US. The table presents a similar message to the ones before it with most European sectors offering lower carbon intensity that the US peers. The exceptions to this are Communication Services, Health Care, and Materials.

Table 4 – Carbon intensity

Sector	Europe	USA
Communication Services	42	29
Consumer Discretionary	19	46
Consumer Staples	39	47
Energy	292	422
Financials	3	32
Health Care	19	14
Industrials	39	114
Information Technology	15	18
Materials	719	536
Media	3	7
Real Estate	67	89
Utilities	607	2,159
Total	111	126

Source - Pella Funds Management using MSCI ESG data

(1) Carbon dioxide emissions (Scope 1 and 2; millions of tonnes) divided by revenue (US$m)

Bringing it all together

The above analysis demonstrates that the European market currently offers more favourable investment credentials than the US across several dimensions. For most sectors, the FCF-to-G relationship is more favourable in Europe, the leverage and carbon intensity is generally lower, and the ESG is better. There are some exceptions, with Health Care being a notable one, as that sector offers broadly equivalent investment credentials in Europe and the US. However, based on the above data there is a strong argument for allocating larger relative weight to Europe, funded by a lower relative US weight, as per the PGGF's current positioning.

Real World Examples

We will now demonstrate how the background analysis works in practice by comparing each of the PGGF's European positions to their most comparable US counterpart, which are presented in Table 5. Three European positions omitted from the analysis are Boliden, Epiroc, and Vinci because they do not have suitable US peers.

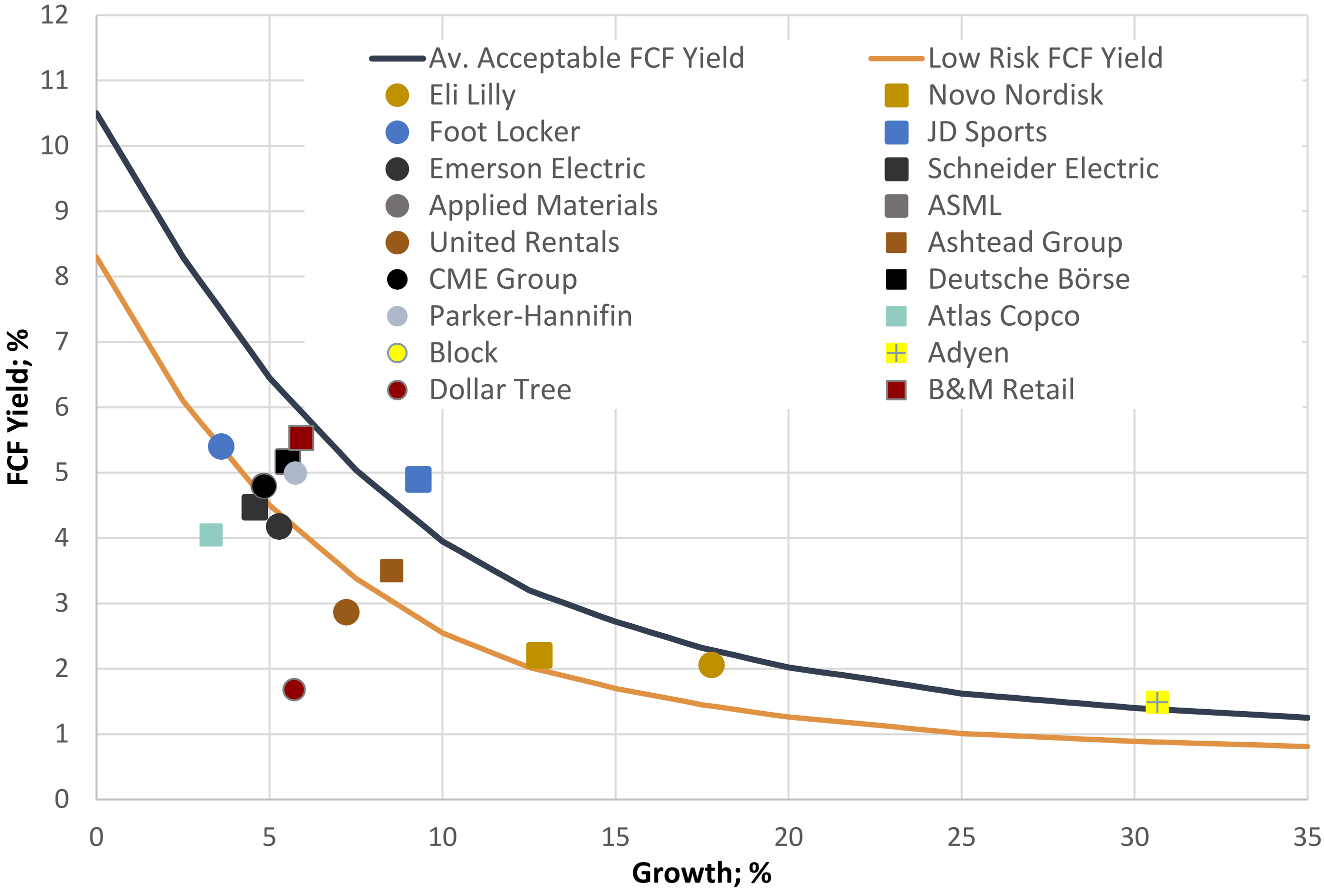
Table 5 – PGGF European Positions & their US counterparts

European Position	US peer
Adyen	Block
Ashtead	United Rentals
ASML	Applied Materials
Atlas Copco	Parker Hannifin
B&M Retail	Dollar Tree
Boliden	n/a
Deutsche Borse	CME Group
Epiroc	n/a
JD Sports	Foot Locker
Novo Nordisk	Eli Lilly
Schneider Electric	Emerson Electric
Vinci	n/a

Source – Pella Funds Management

Figure 4 illustrates the FCF-to-G relationships (adjusted for SBC) of the Fund's European positions and their US peers. Block is not visible in the figure because it currently offers a negative FCF yield whereas the chart only includes companies that are cash generative. Virtually every European position offers a superior FCF-to-G relationship to their US peer, with the only exceptions being Novo Nordisk and Atlas Copco.

Figure 4 – Value Vs. Growth relationships for Pella's European positions and US counterparts



Source – Pella Funds Management

Table 6 illustrates the leverage of the Fund's European positions and their US peers. This analysis excludes Deutsche Borse and CME, which are financials, making the leverage calculation based on net debt to EBITDA inappropriate. Virtually every European position has less leverage than its US counterpart, with the one exception being Adyen, which is inline with Block.

Table 6 – Leverage (Net Debt/EBITDA)

		US peer [1]
Adyen	-2.05	-2.11
Ashtead Group	1.98	2.22
ASML	-0.41	0.40
Atlas Copco	0.66	1.46
B&M Retail	2.83	3.12
JD Sports Fashion	0.68	2.10
Novo Nordisk	0.03	1.43
Schneider Electric	0.93	1.98

Source – Pella Funds Management
(1) Refer to Table 5 for a list of the relevant peers

Table 7 summarises the MSCI ESG score of the Fund's European positions and their US peers. The European companies generally offer superior ESG scores to their US peers with the exceptions being JD Sports and B&M Retail, which have slightly lower scores than their peers.

Table 7 - MSCI ESG score

		US peer [1]
Adyen	55	46
Ashtead Group	65	62
ASML	79	67
Atlas Copco	59	48
B&M Retail	46	50
Deutsche Börse	65	47

JD Sports Fashion	54	58
Novo Nordisk	60	52
Schneider Electric	69	57

Source – MSCI ESGManager
(1) Refer to Table 5 for a list of the relevant peers

Table 8 presents the carbon intensity of the European positions and their US peers. It demonstrates the European companies are generally less carbon intensive than their US peers, with the one exception being ASML.

Table 8 – Carbon intensity

		US peer (1)
Adyen	0.4	0.9
Ashtead Group	44.6	47.1
ASML	8.7	4.0
Atlas Copco	10.1	40.8
B&M Retail	15.7	43.4
Deutsche Börse	1.5	4.3
JD Sports Fashion	6.8	11.0
Novo Nordisk	4.3	22.8
Schneider Electric	8.9	43.9

Source – MSCI ESGManager
(1) Refer to Table 5 for a list of the relevant peers

Table 9 is the final scorecard of how the Fund's European positions performed relative to their most comparable US peers. It demonstrates that every European company outperformed its US peer on at least three of the four metrics.

Table 9 – Final scorecard

	Value	**Leverage**	**ESG**	**Carbon intensity**
Adyen	✓		✓	✓
Ashtead Group	✓	✓	✓	✓
ASML	✓	✓	✓	
Atlas Copco		✓	✓	✓
B&M European Value Retail	✓	✓		✓
Deutsche Börse	✓	n/a	✓	✓
JD Sports Fashion	✓	✓		✓
Novo Nordisk		✓	✓	✓
Schneider Electric	✓	✓	✓	✓

Source – Pella Funds Management

Conclusion

Pella's investment exposure is rarely driven by our views about a company's domestic economy. This is because most of the companies we invest in operate globally and are primarily affected by the global economy, rather than the local economy. Given these global exposures, our objective is to optimise several investment criteria such as FCF-to-G, leverage, ESG, and carbon intensity.

Based on our criteria, European companies in general currently offer superior attributes to their US peers. This explains why the PGGF is presently overweight Europe and underweight the US. However, this positioning is not etched in stone and the Fund's exposures will change when the underlying fundamentals direct us to do so.

Fund Commentary

Portfolio Positioning

During 1Q23 the Pella Global Generations Fund ("Fund") delivered a return of 10.0%, outperforming its benchmark[1] by 1.4%. The benchmark was up 8.7% virtually entirely due to high growth stocks. This means the Fund outperformed a growth-driven market in 1Q23 and a value-driven market in 4Q22. Outperforming in two diametrically opposed market environments is a remarkable result[2] and a testament to the resilience of Pella's investment process.

The sectors making the largest absolute performance contribution to the Fund during the quarter were Information Technology and Consumer Discretionary. Financials also made a solid absolute contribution, and made the largest relative contribution as the Fund did not own any banks, which were broadly weak during the quarter.

It was a wild market to navigate during the quarter. At the start of the year, markets were buoyed by a view that the Fed was likely to cut interest rates by July 2023. This was short lived as strong economic data resulted in the market repircing the probability of the Fed cutting interest rates. Then markets were shaken by turmoil in the banking sector in both the US and Europe. As a result, the view reverted to that of the Fed cutting interest rates during 2023.

As always, Pella's primary reaction to the market environment was to continue our focus on companies that satisfy our valuation-to-growth and sustainability requirements. In the 4Q22 quarterly report the area showing most promise was largely, bellwether tech companies, however, while reviewing the tech sector we identified extremely attractive opportunities in the smaller, faster growing portion and we added two new Innovation stocks, Adyen (ADYEN-NL), which is explained in the Stock in Focus section of this report, and Enphase Energy (ENPH-US). In addition, we added to the 3i (III-GB) position within the Core segment of the portfolio as that company continues to execute and offers a strong value-to-growth relationship.

On the flip side, during the quarter we exited CME Group (CME-US) as it was not performing as expected during periods of heightened volatility, Orsted on valuation grounds, and Sunrun as we identified a superior investment opportunity in the same space. In addition, we cut exposure to several Cyclical stocks partly due to the strong performance of our cyclical investments and partly due to our assessment that there is an increasing probability of a recession during 2023.

Post these changes and considering adjustments to existing positions, the Fund's exposure to Information Technology increased 5% while exposure to Materials declined 4% and Industrials declined 2%. There was deminimus change to the Fund's geographic exposure and the Fund remains notably underweight the US and overweight Europe.

Pella's portfolio structure will always be a diversified combination of companies that satisfy our valuation-to-growth and sustainability requirements; rather than being dictated by any top-down country or sectoral bias. We believe this is the best way to achieve consistency in

[1] MSCI ACWI ($A, net)

[2] Past performance is not indicative of future performance

delivering on our three goals of better returns, lower volatility, and superior sustainability to the benchmark.

Portfolio Segments

Core:

The Fund maintained its exposure to the Core segment at approximately 80%, the highest allocation the Fund has had to that segment since inception. There were no new stocks added to the Core segment while the Fund exited CME Group and Orsted. These exits were counterweighted with increased exposure to 3i Group, Marsh & McLennan, UnitedHealth Group, and Alphabet.

Cyclical:

The Fund's exposure to the Cyclical segment was reduced to 6%, from 10% at the end of 4Q22. This reflected cuts to the size of virtually all Cyclical positions, while not exiting any of them. The Fund continued to hold positions in cyclical companies in industries where there is an expected tightness in supply, for example fertilizers and copper producers.

Innovation:

Exposure to Innovation was increased to 4%, from 1% in the prior quarter. This change reflected the exit from Sunrun and the addition of two new Innovation stocks, Adyen and Enphase Energy. The low exposure to this segment reflects our emphasis on earnings certainty, as explained in the 4Q22 CIO Report. However, with the growing likelihood of a less hawkish Fed, we have been increasing our attention to Innovation stocks.

Stock in Focus

Ryan Fisher
Investment Analyst

It often seems that the term "*high tech, disruptive growth*" only really applies to stocks listed in the US. However, there are companies in Europe that satisfy that definition. Adyen is one of them.

We have been following Adyen for many years. However, it had been one of those cases where we liked the company but couldn't justify the valuation. That changed in the second half of 2022 when rising interest rates caused the valuation bubble in high growth stocks to burst. Adyen's share price declined by around 50% from its peak, giving us reason to revisit the valuation. We found that the stock had corrected enough to satisfy our Price-for-Growth valuation requirements.

Therefore, when Pella made the decision to move back into the Innovation space at the start of this year, Adyen was the first stock we added to that segment of the portfolio.

Adyen is a global payments company, headquartered in the Netherlands. The word 'Adyen' is Surinamese for "*start over again*", which is an apt description of the company's heritage.

The company was founded in 2006 with the aim of building payments infrastructure from scratch. At that time, the payment industry was entering a new era that was defined by globalisation and digitalisation, which the incumbents were ill-equipped to serve.

The incumbents' inherent problem was their history. They had established their systems and processes in a world where the aim of the game was to complete a simple in-store transaction, usually taking place in their local market.

Payment processing was therefore seen as an undifferentiated service and economies-of-scale became the key competitive advantage. As such, it made sense for payment processors to grow via acquisitions, initially in their home markets, followed by new geographies.

For many years, this was a wonderful growth strategy and most payments stocks generated significant shareholder wealth. However, it also resulted in a patchwork of bolted-together systems and a disparate set of merchant acquiring processes and affiliations.

When e-commerce began to boom, the incumbents were forced to move quickly, often by bolting new systems onto their legacy tech frameworks. This was fine to begin with as the incumbent processors and the banks were in the same boat, with patchwork systems and commoditised offerings.

But that was when the growing importance of the internet and technology caused a major change.

Bricks and mortar retailers remained a solid, albeit low growth, source of revenue for the incumbent payment processors. However, the real growth in payment processing volumes began to shift towards the e-commerce giants, online marketplaces, and disruptors such as Uber and Airbnb.

Adyen was founded around that time, with systems specifically designed to satisfy the needs of the new tech-savvy, digital-oriented and globally focused organisations. To these clients, simply completing a local transaction was no longer sufficient.

E-commerce has fundamental differences to bricks and mortar retailing. For example, fraud is more easily committed online, meaning payment processors were required to offer superior fraud and risk management capabilities. E-commerce is typically more global than bricks and mortar retailing, meaning payment processors needed to be able provide seamless global solutions. E-commerce also enables superior data collection and analysis, meaning payment processors were expected to provide advanced solutions.

In short, the key to success in the new world of global commerce was to be a software company that happened to operate in the payments industry, rather than a payments company running as fast as it could to master the software.

The incumbents have responded as well as could be expected, but they have been caught between a rock and a hard place. To keep up with the changing client demands and participate in the higher growth parts of the market, they have had to keep adding more 'patches' to their existing patchwork of technology platforms. This has made it increasingly difficult for them to provide a complete and agile solution, which would require investing a lot of time and money into replacing their legacy technology and resolving the complexity of their systems and processes.

Adyen is not encumbered by these issues, having built its technology and structures from scratch, specifically aiming to get ahead of the evolution of the market. It operates an agile technology stack that is vertically integrated across the entire payments processing chain and offers a truly global service. Today, Adyen and its peer Stripe are the clear leaders in modern payments solutions with best-in-class technology platforms. This perspective is supported by Adyen's strong growth rate, its first class client list (including Uber, Netflix, Spotify, Airbnb and Etsy) and its very low customer churn rate (1% reported).

The fact that Adyen is one of the few clear winners in the payments processing space is a good start for the investment case. However, it is also critical that it satisfies Pella's valuation and sustainability requirements.

On the valuation front, Pella's view is that Innovation stocks are, by definition, higher risk investments than the stocks in our Core segment. Therefore, our valuation model requires Innovation stocks to meet a commensurately higher return hurdle.

We consider Adyen to be at the lower-risk end of the Innovation spectrum, for three main reasons: (1) it already has a strong position in an industry which is entrenched in the global financial infrastructure; (2) it is still growing at a very fast pace, but already has a reasonably long (and very strong) track record by Innovation standards; and (3) it is a rare example of an Innovation stock that is already highly profitable and cash generative.

The company's financial dynamics are illustrated in Figure 6. It has generated consistent growth and demonstrated significant operating leverage, resulting in strong operating profits. The company is also capital light, meaning that its earnings are readily converted into free cash, and its has a solid (net-cash) balance sheet.

Notwithstanding this, we have adhered to our standard approach for Innovation stocks and applied a higher-than-average return hurdle in our assessment of Adyen's valuation equation.

The stock is currently trading on a 1.5% FCF yield (after removing the transitory boost to reported FCF from its positive working capital dynamics).

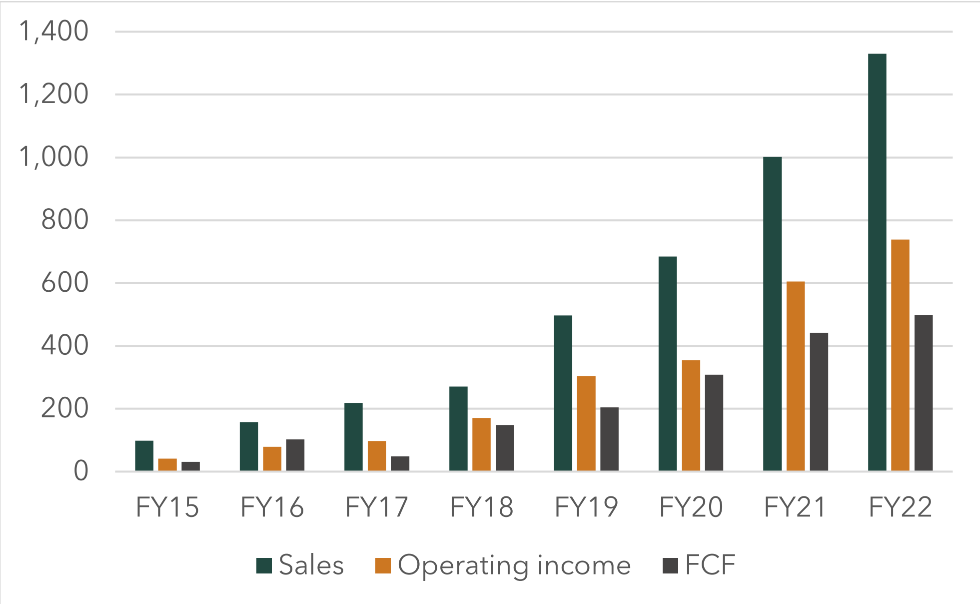
Analyst revenue growth forecasts are consistent with the company's medium term guidance of "between the mid-twenties and low-thirties".

Once the company's natural operating leverage kicks back into gear (following its accelerated investment in new growth activities in FY22/23), we believe that revenue growth of even high-20s should be sufficient to result in FCF growth in the high-30s.

This would be more than enough to satisfy our Price-for-Growth valuation requirements for the stock.

However, given where the company sits on our Price-for-Growth curve (very high growth at a commensurately demanding valuation), it is critical that Adyen delivers on the growth front.

Figure 5 - Adyen revenue, operating income, and free cash flow [1]



Source – Adyen

(1) *FCF is measured pre the company's net working capital adjustments, which provides a large boost to reported FCF, but is transitory in nature (because it mainly reflects sales proceeds that are held by Adyen for a short period of time before being paid out to the merchant's bank account).*

Our top-down and bottom-up analysis of Adyen's growth prospects combine to give us comfort in that regard.

Let's begin with a top-down perspective…

The overall electronic payments market is forecast (by eMarketer, Nilson, Statista and others) to grow by approximately 10% p.a. over the next three years.

It is difficult to obtain reliable and consistent data on the total market size. Therefore, for the sake of simplicity, we have used total Visa and Mastercard payments volume as a proxy for the electronic payments market. Those two players make up roughly 70% of the overall market (excluding China/India). Therefore, we have grossed their figures up by a factor of ~1.4x to estimate Adyen's share of the market.

On this basis, Adyen's market share of electronic transaction volumes in 2022 would have been ~3.3%, with an average increase in its market share of ~0.6% p.a. over the preceding 3 years.

If we assume that the overall market will grow by 10% p.a., this implies that Adyen will need to continue to gain market share at a similar pace (i.e. roughly +0.6% p.a.) in order to deliver on the market's expectation of 28-29% p.a. revenue growth in coming years.

Based on the company's superior product offering, coupled with its investment into new new product/service initiatives and new geographies, we believe the continuation of those kind of market share gains are achievable.

This conclusion is supported by our bottom-up analysis…

Adyen has disclosed that over 80% of its growth in recent periods has come from clients that were already on the platform. In 2022, this would imply that the company was able to generate ~25% growth in revenue from its existing clients alone.

The 25% growth rate from existing clients is explained by several factors that we consider will endure for at least the next three years. Firstly, Adyen's customer based is strongly skewed towards e-commerce and internet platform companies that are generally growing very rapidly. Secondly, Adyen has historically benefited from its customers adding Adyen to incremental parts of their business, like new geographies and brands. Thirdly, Adyen has developed new products such as in-store payments and financial services offerings which it is successfully selling to its existing customers.

We expect this strong growth from existing clients to continue, driven by the company's ongoing opportunities to gain wallet share and supported by its exceptionally high client retention rate (reported churn only 1%).

A slowdown in consumer activity will likely be a headwind to some of the company's existing clients in coming periods. However, this will be offset by the benefits to Adyen of higher inflation (because most of its revenue is based on the gross dollar value of the transactions processed for its clients).

The remaining one-fifth of the company's revenue growth in 2022 came from the addition of new clients to the platform.

As discussed above, Adyen has a superior offering to the incumbents with only one other player (Stripe) having a comparable offering. This positions Adyen to continue to win new customers at the incumbents' expense, as demonstrated by recent "marquee merchant" wins including Uniqlo, FreeNow, Instacart, LaCoste, Pet Supplies Plus and Bayern Munich, as well as notable "platform" wins such as Oracle and Mirakl.

We expect that wins in the large/global enterprise space will become a less significant contributor to the total growth equation in future periods. However, the company has already begun expanding its mid-market presence (currently only ~3% of its clients) and it is confident of making inroads into the under-served SME market via its new "Platforms" offering. It is also making significant investments into expanding its geographic footprint and taking additional share in markets such as the US, Japan and Mexico.

Recent events have given us increased confidence in Adyen's ability to sustain its very high growth rate for a number of years.

At a time when most high growth/tech companies are cutting their workforce, Adyen added significantly to headcount in 2022 and indicated that the hiring will continue throughout 2023. This is in stark contrast to Stripe, which announced in November last year that it would be cutting 14% of its global workforce.

In Pella's view, Adyen can afford the investment as it has a strong balance sheet and is already highly profitable with an EBITDA margin of ~60% in 2021. While the current investment in growth means the margin is likely to drop back to ~50% this year, the company remains very confident of achieving its target of a 65%+ margin down the track.

Therefore, Pella believes that Adyen is well positioned to deliver on its target of "between mid-twenties and low-thirties" revenue growth over the medium term. Existing clients will continue to drive most of that growth and the company will also continue to win new clients and expand into new markets. All of this is made possible by the company's superior technology and product offering, coupled with its recent accelerated investment into growth (at a time when competitors are controlling costs).

Adyen also satisfies Pella's sustainability requirements. It has an 'A' MSCI rating, near zero carbon intensity, and has not been involved in any severe controversies. The most relevent ESG consideration is governance where we believe the company performs well. It has a single share class, separates the CEO and Chairperson, and 40% of its Supervisory Board members are female (noting, however, that there are only five people on the Supervisory Board).

In addition, we applaud several of the company's social initiatives such as its Impact technology, which is a philanthropic feature incorporated into its core payment platform, and its decision to donate 1% of the company's net revenue to initiatives that support the United Nations' Sustainable Development Goals.

An area of improvement we would like to see is for the company to become a signatory to the United Nations Global Compact.

In summary, Adyen is a company that we have long admired and the recent pull back in the share price provided us with an opportunity to invest, with the stock's Price-for-Growth dynamics satisfying our valuation requirements. The company also has solid sustainability fundamentals. Therefore, Adyen has been a high-quality addition to the Innovation segment of the Pella portfolio.

Responsible Investing

The 4Q22 quarterly report communicated Pella's initiative to improve Marsh & McLennan's (MMC) disclosure of its involvement in the fossil fuel industry. Since then the company has responded to our request that it does *"not currently plan to disclose engagements (or related revenue) with any specific industries at this time."*

Pella is not satisfied with MMC's response and we intend to escalate the initiative by submiting a shareholder resolution at the next AGM (2024) for MMC to make the fossil fuel disclosures.

Pella is also seeking improved tobacco-related disclosure from its investments in retailers. During 1Q23 we wrote to Dollar General (DG) and B&M European Value Retail (BME) requesting them to disclose the proportion of revenue they generate from tobacco sales.

As at the date this report was prepared neither company had committed to comply with our request. Most companies choose to avoid making these types of diclosures and our expectation is that DG and BME will be unmoved by our request. Therefore we intend to make a submission to the US Securitits and Exchange Commission (SEC) and potentially other regulators to establish a requirement for retailers to disclose their tobacco-related revenue.

Pella believes that there is a strong argument for the SEC to support the initiative. Tobacco-related revenues represent a business risk given the ongoing tobacco-related regulation, and the SEC requires companies to disclose their material risks.

Pella participated in all its shareholder votes during the quarter and the voting track-record is in Table 10. There were two resolutions where Pella voted differently to the investee companies directors' recommendations.

- Orsted - Pella Abstained in the vote to Reelect Thomas Thune Andersen (Chair) as Director, due to a lack of board diversity.
- Novo Nordisk – Pella Abstained in the votes to Reelect Sylvie Gregoire and Kasim Kutay as Directors due to them being incument nominating committee members standing for election to the board. Pella voted against the Product Pricing Proposal because it was overly prescriptive.

Table 10 – Pella's 1Q22 voting track-record

Company Name	Meeting Type	Voting String
Orsetd	Annual	FFFFFBFFFFFFFFFF
Novo Nordisk	Annual	FFFFFFFFFFBBFFFFFFA

During the quarter Pella employees volunteered at [ReLove](), a charity that provides furniture and furnishings to people in need such as those escaping domestic violence, refugees, and individuals transitioning away from incarceration. ReLove gave us the opportunity to operate at the frontline of social need, which we found hugely rewarding and we encourage you to reach to them to offer a hand.

Another one of our initiatives during the quarter was to submit an application to become a certified [B Corporation](). This is one of the most robust ESG certification programs in the world and certified B Corporations are broadly regarded as leaders in the the global movement for an inclusive, equitable, and regenerative economy. We hope to achieve B Corporation certification this year.

Pella Global Generations Fund

Performance

Net of all fees	PGGF Class B	MSCI ACWI (AUD, net)	Relative
1 month	4.1%	3.8%	0.3%
3 months	10.0%	8.7%	1.4%
6 months	20.6%	13.1%	7.5%
1 Year	8.7%	3.8%	4.9%
Inception to date (1)	-0.6%	-4.9%	4.3%

(1) 1 January 2022

Past performance is not indicative of future performance. Performance returns are net of fees and assume reinvestment of distributions. Actual investor performance may differ due to the investment date, date of reinvestment of income distributions, and withholding tax applied to income distributions.

Fund Holdings

As of 28 February 2023

Holdings Name	Sector	Country
3i Group	Financials	United Kingdom
Adobe	Information Technology	United States
Adyen	Information Technology	Netherlands
AIA Group	Financials	China
Alphabet	Communication Services	United States
Antofagasta	Materials	Chile
Ashtead Group	Industrials	United Kingdom
ASML	Information Technology	Netherlands
Atlas Copco	Industrials	Sweden
B&M European Value Retail SA	Consumer Discretionary	United Kingdom
Bayerische Motoren Werke	Consumer Discretionary	Germany
Boliden	Materials	Sweden
Cigna Corp.	Health Care	United States
Deutsche Börse	Financials	Germany
Dollar General	Consumer Discretionary	United States
Enphase Energy	Information Technology	United States
Epiroc	Industrials	Sweden
Intuit	Information Technology	United States
Intuitive Surgical	Health Care	United States
IQVIA	Health Care	United States
JD Sports Fashion	Consumer Discretionary	United Kingdom
Marsh & McLennan	Financials	United States

Microsoft	Information Technology	United States
Mosaic	Materials	United States
Novo Nordisk	Health Care	Denmark
Nutrien Ltd.	Materials	Canada
Ørsted	Utilities	Denmark
Ping An Insurance	Financials	China
Schneider Electric	Industrials	France
Texas Instruments	Information Technology	United States
Thermo Fisher Scientific	Health Care	United States
TSMC	Information Technology	Taiwan
UnitedHealth Group	Health Care	United States
VINCI	Industrials	France

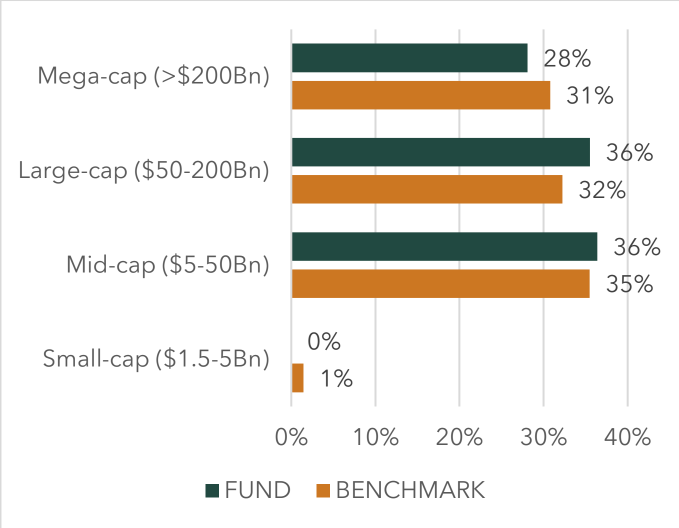
Fund Analytics

As of 31 March 2023

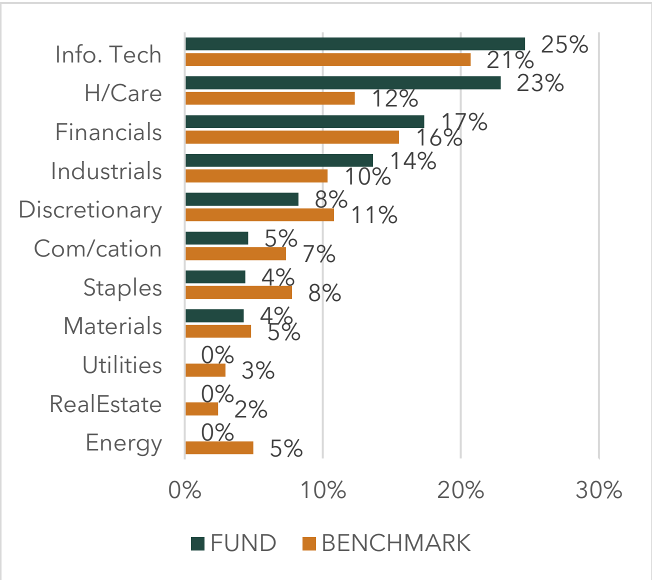
Asset Allocation

	Fund	Benchmark
Equities	90%	100%
Developed Markets	83%	89%
United States	43%	61%
Europe	38%	17%
Japan	0%	5%
Others	1%	6%
Emerging Markets	7%	11%
Asia (ex-Japan)	6%	9%
Latin America	1%	1%
Others	0%	1%
Cash	10%	0%

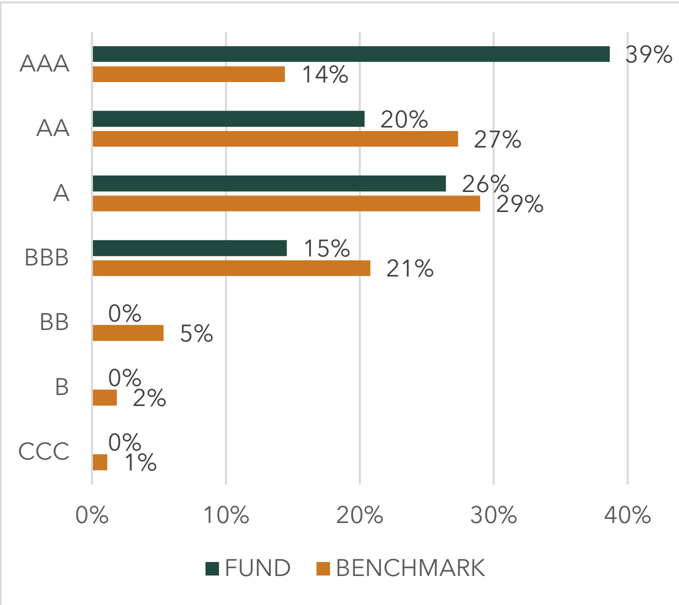
Market-Cap Allocation



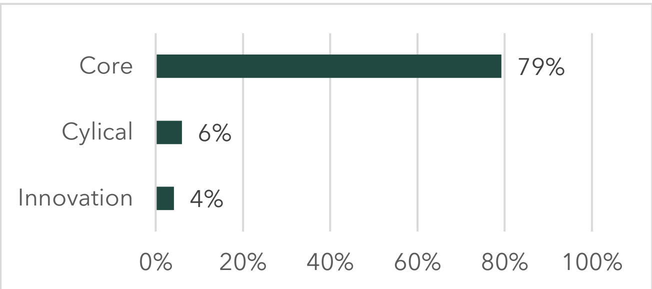
Sector (GICS) Allocation



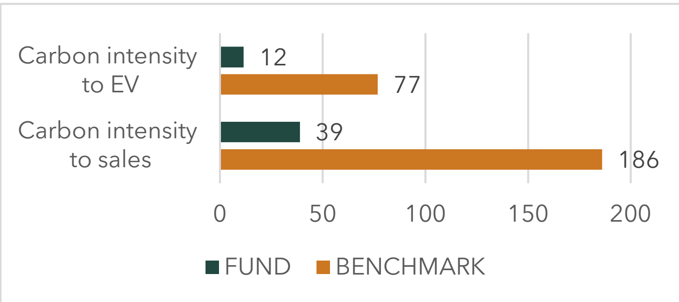
MSCI ESG Rating Distribution



Segment Allocation



Carbon Intensity



Key Information

Portfolio Manager	Jordan Cvetanovski
Inception date	1-January-2022
Price Class B (NAV)	$1.189 (31 March 2023)
Buy/Sell spread	+0.25% /-0.25%
Minimum	$25,000
Additional Investment	$1,000/ $1,000 per month on a regular savings plan.
Pricing frequency	Daily
Distribution frequency	Annual
Base fee	0.65%
Performance fee	15% above benchmark
Benchmark	MSCI All Country World Index ("MSCI ACWI") (A$, net) *
APIR code	PIM5678AU
ISIN	AU60PIM56781

* The fund's investable universe differs to its benchmark. The fund's negative screen excludes several activities that are included in the benchmark such as fossil fuel mining,transportation, or electricity generation; weapons; alcohol; and casinos. The fund also excludes companies that are rated CCC by MSCI. In addition, the fund can invest in companies that are not included in the benchmark, provided those companies satisfy the fund's liquidity requirements. Thus, the fund may be of a different return and risk profile then the benchmark.

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