PENGANA CAPITAL

MONTHLY REPORT
JUNE 2021

WHEB SUSTAINABLE IMPACT FUND

DESCRIPTION

The Pengana WHEB Sustainable Impact Fund invests in companies with activities providing solutions to sustainability challenges. WHEB have identified critical environmental and social challenges facing the global population over coming decades including a growing and ageing population, increasing resource scarcity, urbanisation and globalisation. The Fund invests in companies providing solutions to these sustainability challenges via nine sustainable investment themes – five of these are environmental (cleaner energy, environmental services, resource efficiency, sustainable transport and water management) and four are social (education, health, safety and well-being). WHEB's mission is 'to advance sustainability and create prosperity through positive impact investments.'

PERFORMANCE TABLE

NET PERFORMANCE FOR PERIODS ENDING 30 JUNE 2021[1]

	1 MTH	1 YEAR	3 YEARS	5 YEARS	SINCE INCEPTION
Fund	**4.2%**	**26.7%**	**13.0%**		
Strategy (partial simulation[2])				14.1%	7.1%
MSCI World Total Return Index (net, AUD unhedged)	4.6%	27.5%	14.4%	14.6%	7.2%

1. From August 2017, performance figures are those of the Pengana WHEB Sustainable Impact Fund's class A units (net of fees and including reinvestment of distributions). The strategy's AUD performance between January 2006 and July 2017 has been simulated by Pengana from the monthly net GBP returns of the Henderson Industries of the Future Fund (from 1 January 2006 to 31 December 2011) and the FP WHEB Sustainability Fund (from 30 April 2012 to 31 July 2017). This was done by: 1) converting the GBP denominated net returns to AUD using FactSet's month-end FX rates (London 4PM); 2) adding back the relevant fund's monthly ongoing charge figure; then 3) deducting the Pengana WHEB Sustainable Impact Fund's management fee of 1.35% p.a. The WHEB Listed Equity strategy did not operate between 1 January 2012 and 29 April 2012 – during this period returns are zeroed. The Henderson Industries of the Future Fund's and the FP WHEB Sustainability Fund's GBP net track record data is historical. Past performance is not a reliable indicator of future performance. The value of the investment can go up or down.

TOP HOLDINGS (ALPHABETICALLY)

A.O. Smith	Industrials	**Intertek Group**	Industrials
Agilent Technologies	Health Care	**Keyence**	Information Technology
Ansys	Information Technology	**Linde**	Materials
Daifuku	Industrials	**TE Connectivity**	Information Technology
Danaher	Health Care	**Thermo Fisher Scientific**	Health Care

THEME

Cleaner Energy	**5.6%**
Education	**2.9%**
Environmental Services	**10.5%**
Health	**22.8%**
Resource Efficiency	**22.0%**
Safety	**6.8%**
Sustainable Transport	**11.5%**
Water Management	**7.1%**
Wellbeing	**9.6%**
Cash	**1.2%**

MARKET CAP (USD)

1-2bn	**3.1%**
2-10bn	**23.3%**
10-20bn	**25.0%**
>20bn	**47.4%**
Cash	**1.2%**

REGION

Asia Pacific	**3.7%**
Emerging Markets - Europe, Middle East & Africa	**2.0%**
Europe ex-UK	**22.0%**
Japan	**9.4%**
North America	**56.1%**
UK	**5.6%**
Cash	**1.2%**

SECTOR

Consumer Discretionary	**8.9%**
Health Care	**30.2%**
Industrials	**30.4%**
Information Technology	**18.8%**
Materials	**10.4%**
Cash	**1.2%**

STATISTICAL DATA

VOLATILITY[3] 13.1%

NUMBER OF STOCKS 46

IS AMAZON REALLY A SUSTAINABLE INVESTMENT?

COMMENTARY

Global equity markets climbed higher as investor concerns over inflationary pressures appeared to ease. Bond yields have dropped recently, suggesting investors believe the current surge of inflation was transitory. On the other hand, the economic recovery continued to gather pace, especially in the US and Europe.

A much more moderate bipartisan US infrastructure bill than originally envisaged put pressure on some of our themes, and the Fund slightly underperformed our benchmark this month, returning +4.2% vs the MSCI World's +4.6%. Our Resource Efficiency and Wellbeing themes delivered relatively strong performance, while our Environmental Services and Sustainable Transport themes were sources of weakness.

Our Resource Efficiency theme was the largest source of positive contribution and **Silicon Laboratories** was one of the best performers. It is a leader in the 'internet of things'. It designs and develops analogue electronic components that are used to control and connect devices. It enables greater efficiencies through closer analysis and control of electrical equipment. Daifuku was another strong performer in this theme. **Daifuku** manufactures material handling systems and its share price recovered following poor performance in the prior month.

The Wellbeing theme also performed well this month. Both HelloFresh and Sonova did well. **HelloFresh** is a leading supplier of fresh food meal kits, using fresh ingredients in pre-measured quantities. This allows for calorie control to support healthy eating. Its sustainable value chain generates up to one-third less food waste than the traditional food supply models. Recent survey data indicated that the company is defending its leading market share in various countries. **Sonova** is a leader in hearing care solutions. It develops and produces hearing aids and cochlear implants. Sonova's strong share price momentum continued this month after having announced strong quarterly results in May.

Our Environmental Services theme was the weakest contributor in June. This was largely driven by underperformance from **Arcadis**. The company provides engineering and environmental services for buildings, infrastructure, and water businesses, with a focus on climate adaptation and sustainability. Fiscal stimuli across many different countries have prioritised green infrastructure investments. The stock has meaningfully outperformed its local stock market so far this year, supported by these favourable policy initiatives. The shares gave up some of these gains over the past month following the introduction of a watered-down infrastructure bill in the US.

Our Sustainable Transport theme also underperformed. It was in large part due to **JB Hunt**. The company mainly provides 'intermodal' services, where truck loads are carried by rail over long distances before being transferred back to road for final delivery. These services help reduce carbon emissions by maximising the use of rail in the transportation of freight. The share price was weak as the same toned-down US infrastructure bill undermined sentiment towards the rail sector.

The stock markets have mainly been driven by macro-economic factors and fiscal stimuli in the first half of the year. Inflationary pressure and interest rate expectations have dominated the headlines. As economies gradually move back towards normality, we believe investors will focus back on company fundamentals in the second half of the year. Given our strategy's focus on impact and quality, our strategy is more likely to perform well when fundamentals are rewarded accordingly.

IS AMAZON REALLY A SUSTAINABLE INVESTMENT?

The WHEB investment strategy has evolved considerably over the past fifteen years. But the core has always been quite simple. We invest in companies that provide solutions to sustainability challenges. The companies' products and services are good for society or the environment, and because of that, they have the potential to grow profits and generate strong investment returns.

That's the idea. And there is beauty in the simplicity. It shouldn't take too much effort to see whether a company is genuinely having a positive impact.

The investment community has moved further in our direction in the last five years than we ever thought was possible. But we are still often amazed that some investors make this so complicated.

During the quarter we read some great research from Morningstar and Morgan Stanley. They looked at the top holdings in EU registered funds classified as "Sustainable" under the Sustainable Finance Disclosure Regulations (SFDR).

Under SFDR, sustainable funds should mostly be classified under either Article 8 or Article 9. Technically, Article 8 funds promote environmental and social characteristics. Article 9 funds on the other hand have a sustainable investment objective. You can think of them as lighter vs. darker green, or ESG vs. impact, although neither distinction is perfect.

Alongside the names of many holdings highlighted in the analysis that make logical sense, there were plenty that hit the eye as odd. News this month also made one name in particular stand out. Amazon is apparently held by 30% of the Article 8 funds the researchers looked at. More incredibly, 13% of the Article 9 funds somehow justified including it too.

To include Amazon in an Article 8 fund, investors need to look past quite a roster of troubling supply chain issues. These are environmental, social and governance (ESG) concerns, which we separate from how it actually generates revenue – its impact. Aggressive tax and labour practices, and ubiquitous plastics and packaging use, all look like pretty meaningful ESG red flags to us.

But we classify WHEB's strategy under Article 9 of SFDR. To include Amazon in an Article 9 fund is an even bigger stretch.

Also in June, some intrepid undercover reporting by ITN uncovered the horrors of Amazon's destruction policy. At a single site in Scotland, they found that Amazon was targeting the obliteration of 130,000 perfectly good items every week. Surplus to requirements, these products were mostly unused and largely still in their wrapping. It is not clear how many were even having parts recycled.

This is the problem of Amazon in plain sight: it is at the centre of rampant, turbo-charged consumerism. Their whole retail business is geared up to make it as easy as possible for everyone to consume more. The smallest number of clicks, the cheapest products, the easiest returns policy. Whatever they can do to encourage you to buy things that you only half-want. And even some that you don't.

And to feed this beast, they constantly push competition on price alone. Which means, running the kind of stock policy which results in throwing away perfectly good stuff.

And it also means turning to manufacturing sources where the true environmental and social cost of the production isn't reflected in the price.

Analysis from Marketplace last year estimated that somewhere between 28% and 58% of Amazon's sales volumes came from Chinese sellers. This number excludes resellers of Chinese products. How many of those suppliers operate to standards that their western consumers would approve of is an open question. And that is before you even factor in the emissions to ship those products to us.

So this is what Amazon does. In the rather plaintive words of the Greenpeace activist interviewed in the ITN film: "Each of these items requires natural resources and carbon emissions and human labour to make. That is why, as long as Amazon's business model relies on this kind of disposal culture… things are only going to get worse."

To us, this feels a very long way from a sustainable investment objective. We look for a lockstep relationship between unit sales growth and positive outcomes for society and the environment. For us, growing consumption is nearer the opposite of that description.

FEATURES

APIR CODE	HHA0007AU
REDEMPTION PRICE	A$ 1.591
FEES *	Management Fee: 1.35%
MINIMUM INITIAL INVESTMENT	$10,000
FUM AT MONTH END	A$ 179.81m
STRATEGY INCEPTION DATE	31 October 2007

FUND MANAGERS

Ted Franks
Partner, Fund Manager

Seb Beloe
Partner, Head of Research

2. The Fund incepted on 31 October 2007 as the Hunter Hall Global Deep Green Trust. The Fund was relaunched on 1 August 2017 as the Pengana WHEB Sustainable Impact Fund employing the WHEB Listed Equity strategy. This strategy was first employed on 1 January 2006 by the Henderson Industries of the Future Fund and currently by the FP WHEB Sustainability Fund.
3. Annualised standard deviation since inception.
4. Relative to MSCI World Total Return Index (net, AUD unhedged)
* For further information regarding fees please see the PDS available on our website.

WHEB SUSTAINABLE IMPACT FUND

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