

PENGANA 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 28 Feb 2023¹

	1 MTH	1 YEAR	3 YEARS P.A.	5 YEARS P.A.	SINCE INCEPTION P.A.
WHEB Sustainable Impact Fund	1.4%	-2.8%	5.5%	6.6%	
Strategy (partial simulation – see below)					5.8%
MSCI World Total Return Index (net, AUD unhedged)	2.0%	-0.3%	8.3%	10.0%	6.6%

PERFORMANCE CHART

NET PERFORMANCE SINCE INCEPTION²



TOP HOLDINGS (ALPHABETICALLY)

Advanced Drainage Systems Inc	Industrials
Agilent Technologies	Health Care
Ansys	Information Technology
Icon	Health Care
Linde	Materials
Power Integrations Inc	Information Technology
Steris	Health Care
TE Connectivity	Information Technology
Thermo Fisher Scientific	Health Care
Trane Technologies PLC	Industrials

SECTOR BREAKDOWN

Consumer Discretionary	4.2%
Consumer Staples	2.2%
Health Care	26.8%
Industrials	23.8%
Information Technology	29.6%
Materials	12.5%
Cash	1%

CAPITALISATION BREAKDOWN

2-10bn	25.2%
10-20bn	24.9%
>20bn	48.9%
Cash	1%

CUSTOM SECTOR BREAKDOWN

Health	22.6%
Resource Efficiency	25.5%
Sustainable Transport	10%
Environmental Services	12.8%
Water Management	8.4%
Safety	5.4%
Cleaner Energy	8.1%
Wellbeing	4.6%
Education	1.7%
Cash	1%

REGION BREAKDOWN

North America	58.4%
Europe ex-UK	20.3%
Japan	7.4%
UK	7.8%
Asia Pacific	5.3%
Cash	1%

UK WATER COMPANIES – FROM HERO TO ZERO

COMMENTARY

Following a strong start to the year in January, global equities ended February with a further 2.0% gain despite investors worrying that interest rates may remain higher for longer than previously thought. The Fund returned 1.4% over the same period.

While investing in water can be an excellent way to make a genuine positive environmental impact, Ty Lee (Associate Fund Manager) explains, in this month's commentary, how investors need to be cautious and focus on investing in companies that contribute directly to improving water quality and water management.

We are delighted that the FP WHEB Sustainability Fund, which investment strategy the Pengana WHEB Sustainable Impact Fund implements, recently won the award for [Best ESG Global Equity Fund from MainStreet Partners](#), a London-based ESG Advisory and Portfolio Analytics firm. The awards recognise a select number of funds and asset managers that have excelled within the universe of 5,800 Funds, managed by over 300 Asset Managers.

Market Review

Following a strong start to the year in January, global equities ended February with a further 2.0% gain despite investors worrying that interest rates may remain higher for longer than previously thought. A series of economic data throughout the month suggested more persistent inflation, which would support the higher rates. Evidence that the labour market remains tight, especially in the services sector, was particularly challenging.

The European Commission announced the 'Green Deal Industrial Plan', which is focused on simplifying the regulatory environment and increasing manufacturing capacity for green technologies and products. These initiatives confirm Europe's commitment to accelerating the energy transition.

Technology and Industrials were the best performing sectors while Real Estate and Materials were the weakest in the global market.

Fund Review

The Fund returned 1.4% over February.

Ansys and Silicon Labs were the largest positive contributors. **Ansys** delivered strong FY22 results and a strong outlook implying 11% revenue growth (in constant currency) for the year ahead. The company supplies simulation software that clients use in their R&D budgets. These tend to be resilient even when the economic outlook is uncertain. This is particularly true now as clients invest in more efficient R&D processes and electrification in the automotive industry.

Silicon Labs delivered a very strong set of results, hitting the billion-dollar revenue milestone and significantly beating EPS. Silicon Lab's semiconductors enable connectivity and thereby greater efficiency for a wide range of household devices. The strong demand for these products despite weak consumer confidence underlined the shift to more sustainable products.

Globus Medical and Advanced Drainage Systems were the largest negative contributors over the month. **Globus Medical** announced that it was going ahead with a previously disavowed merger with rival Nuvasive. Our view is that this combination is likely to face significant challenges so sold our position. **Advanced Drainage Systems** performed poorly as cyclical weakness in residential construction is expected to dampen the near-term demand outlook.

Health was the weakest theme during the month and the largest detractor from performance, while Resource Efficiency was the strongest.

UK water companies – from hero to zero

Water pollution is an ancient problem in the UK, with sewage spills and other sources of contamination frequently making headlines. UK water quality was one of the worst among European countries in the 1970s and 80s. High levels of contamination were largely due to the discharge of agricultural and industrial waste. Heavily polluted rivers, lakes, and coastal waters, along with filthy power stations, were responsible for the country's reputation as 'the dirty man of Europe'.

However, starting in the 1990's the European Union adopted a series of Directives forcing Member States to improve the quality of fresh and salt water.¹ During this period, water quality in the UK improved.² This was the time when water companies were seen as 'environmental champions'. They took the initiative to talk to agricultural and industrial customers to stop pollutants from entering the water systems in the first place.

So why do sewage spills appear to happen more often now? Water companies are presented with greater challenges from issues such as urbanisation and climate change. Urban water runoff is a leading cause of water quality problems. About 18% of water bodies in England were identified as being damaged by pollution from towns, cities, and transport in 2020.³ Climate change also contributes to the problem as increases in the frequency and intensity of extreme weather events raise the risk of flooding. Excessive amounts of rainwater entering sewers can cause sewage spills. According to data from The Environment Agency, sewage was dumped into the ocean and rivers around the UK more than 770,000 times over the course of 2020 and 2021.⁴ Sewage overflows could also result in new contaminants such as PFAS chemicals and pharmaceutical residues building up in the environment.⁵

Deregulations and Underinvestment

Deregulation has been another contributing factor to water pollution in the UK. The deregulation of the water industry in England in 2017 removed some of the requirements for water companies to report on their performance and reduced the role of the regulator in setting service standards. In 2021, the nine water and sewerage companies in England delivered the worst environmental performance in years.⁶ Moreover, the Environmental Agency's budget has been severely cut in recent years, which has dramatically undercut its ability to monitor the performance of the water companies. Current prosecutions by the Environment Agency are just 6% of the level they were a decade ago.⁷

This lack of regulatory oversight has resulted in water companies underinvesting in sewage treatment infrastructure over many years. However, it is essential for water companies to embrace their corporate social responsibility and prioritise the protection of our environment, rather than solely focusing on meeting the minimum regulatory requirements. Unfortunately, the issue of greenwashing is not uncommon in the water sector. Water utilities often tout investment plans to reduce storm overflows and improve water quality, but fail to follow through with adequate funding.

The Water Services Regulation Authority revealed that many water firms have invested significantly less than what they are capable of spending, indicating a lack of genuine commitment to environmental protection.⁸ Hence, there is a pressing need for stronger regulatory oversight and increased accountability within the industry to ensure that water companies prioritise the environment and invest adequately in sewage treatment infrastructure.

Investing in Water Solutions

Water utilities used to be seen as change agents which helped improve water quality in the UK. In the early 2000s, companies like South West Water developed innovative schemes to pay farmers to avoid the use of certain pesticides, saving money in the downstream treatment process and reducing environmental contamination. These innovative practices provided a reasonable justification for including these companies in sustainability-oriented investment funds. Pennon, which owns South West Water, was one of the largest holdings in the WHEB strategy back in 2012. However, due to the years of underinvestment and deregulation, this is no longer the case. WHEB sold its position in Pennon in 2012 and has since then been concerned at the downward trend in the environmental performance of water utilities.⁹

Water companies have literally gone from 'hero to zero' over the past couple of decades and today, investors looking to make a positive impact on water quality should turn their attention instead to companies that provide water treatment equipment and solutions. These companies offer a more tangible and quantifiable environmental impact.

For example, [Xylem](#) produces a wide range of water technology products and solutions. It provides water and wastewater treatment technologies including advanced filtration and disinfection as well as chemical treatment. It also produces water monitoring and testing equipment to monitor water quality in real-time.

Another example is [Advanced Drainage Systems](#), which specialises in providing solutions for stormwater and wastewater management. It offers biofiltration systems that use natural processes to remove pollutants from stormwater and wastewater. Their solutions are particularly needed in cities to help manage stormwater runoff and prevent flooding.

Investing in water can be an excellent way to make a genuine positive environmental impact. However, investors need to be cautious and focus on investing in companies that contribute directly to improving water quality and water management. It is also important to consider the impact of climate change and urbanisation on water pollution and how these factors can affect investments. By focusing on companies that provide water solutions, investors can make a difference in creating a cleaner and healthier environment for everyone.

¹ This legislation covered everything from water quality protecting shellfish, bathing water quality and drink water quality and dealing with discharges of urban waste water, nitrates and industrial pollution.

² <https://www.sciencedirect.com/science/article/pii/S0048969722041110>

³ <https://www.gov.uk/government/publications/state-of-the-environment/the-state-of-the-environment-the-urban-environment>

⁴ <https://www.theguardian.com/environment/2022/nov/24/water-companies-dumping-sewage-during-dry-weather-sas-report-finds>

⁵ <https://www.sciencedirect.com/topics/earth-and-planetary-sciences/emerging-contaminant>

⁶ <https://www.gov.uk/government/publications/water-and-sewerage-companies-in-england-environmental-performance-report-2021/water-and-sewerage-companies-in-england-environmental-performance-report-2021>

⁷ <https://bylinetimes.com/2022/12/06/the-sewage-scandal-the-worst-we-have-seen-in-years-why-british-bathing-water-is-the-dirtiest-in-europe/>

⁸ <https://www.theguardian.com/environment/2022/dec/06/ofwat-attacks-water-firms-lack-of-investment-to-cut-sewage->

[discharges](#)

⁹ For example work done by the Environmental Rating Agency clearly highlighted this poor performance years before it became a routine media headline (see <https://www.linkedin.com/pulse/water-utilities-next-too-big-fail-matt-prescott/>).

FEATURES

APIR CODE	HHA0007AU
REDEMPTION PRICE	A\$ 1.4422
FEES *	Management Fee: 1.35%
MINIMUM INITIAL INVESTMENT	\$10,000
FUM AT MONTH END	A\$ 273.03m
FUND INCEPTION DATE	31 October 2007

FUND MANAGERS



Ted Franks
Partner, Head of Investment



Seb Beloe
Partner, Head of Research

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. No allowance has been made for buy/sell spreads. Please refer to the PDS for information regarding risks. Past performance is not a reliable indicator of future performance. The value of the investment can go up or down.
 2. The Fund inception on 31 October 2007 as the Hunter Hall Global Deep Green Trust. The Fund was relaunched on 1 August 2017 as the Pengana WHEB Sustainable Impact Fund employing the WHEB Listed Equity strategy. This strategy was first employed on 1 January 2006 by the Henderson Industries of the Future Fund and currently by the FP WHEB Sustainability Fund.
 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.

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