

**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.'

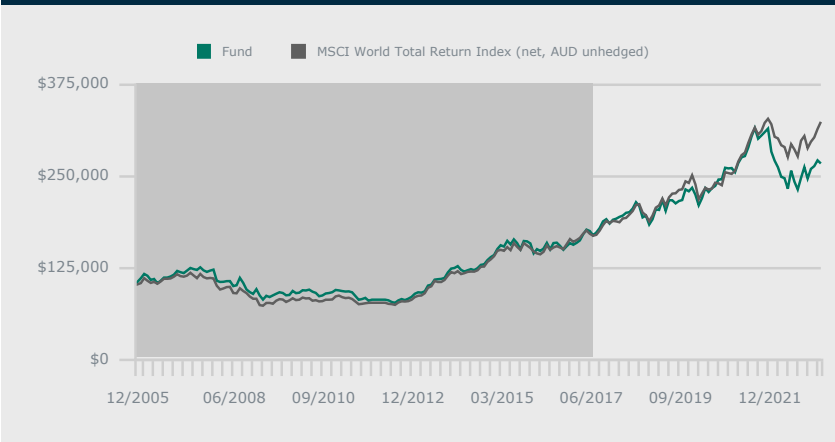
**PERFORMANCE TABLE**

NET PERFORMANCE FOR PERIODS ENDING 30 Apr 2023<sup>1</sup>

	1 MTH	1 YEAR	3 YEARS P.A.	5 YEARS P.A.	SINCE INCEPTION P.A.
WHEB Sustainable Impact Fund	-1.6%	7.3%	6.7%	6.4%	
Strategy (partial simulation – see below)					5.8%
MSCI World Total Return Index (net, AUD unhedged)	3.1%	11.0%	12.8%	11.1%	7.0%

**PERFORMANCE CHART**

NET PERFORMANCE SINCE INCEPTION<sup>2</sup>



**TOP HOLDINGS (ALPHABETICALLY)**

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

**SECTOR BREAKDOWN**

Consumer Discretionary	3.9%
Consumer Staples	1.5%
Health Care	27.7%
Industrials	24%
Information Technology	28.4%
Materials	13.5%
Cash	1.1%

**CAPITALISATION BREAKDOWN**

2-10bn	24.2%
10-20bn	27.6%
>20bn	47.2%
Cash	1.1%

**CUSTOM SECTOR BREAKDOWN**

Health	23.4%
Resource Efficiency	25.2%
Sustainable Transport	10.1%
Environmental Services	14%
Water Management	8.1%
Safety	5.4%
Cleaner Energy	7.1%
Wellbeing	4.1%
Education	1.6%
Cash	1.1%

**REGION BREAKDOWN**

North America	59.9%
Europe ex-UK	20.2%
Japan	7.9%
UK	5%
Asia Pacific	5.9%
Cash	1.1%

## OZEMPIC – IS NOVO NORDISK'S DIABETES AND WEIGHT LOSS DRUG A MIRACLE OR A MENACE?

### COMMENTARY

The Fund fell in April as key sustainability sectors including semiconductors, manufacturing, and automotive underperformed; and many of the larger cap growth stocks which do not meet our thematic criteria remained resilient in the face of higher interest rates.

In a society riddled with low self-esteem and mental health issues, Claire Jervis discusses whether Novo Nordisk's diabetes and weight loss drug, which has become a TikTok sensation and branded a miracle weight loss drug, can or should be considered positive impact.

#### Market Review

April was a positive month for global equities with growth remaining resilient in the face of higher interest rates. There was notable strength in the luxury goods segment (not an area of investment for this strategy) as investors anticipated improved demand from China.

Falling energy prices helped to bring headline inflation down in major developed economies. However, OPEC announced a cut in production aimed at stabilising the oil price at around \$80 a barrel.

There was further stress in the banking sector towards the end of the month with the collapse of another US financial institution, First Republic, highlighting the continued impact of rising interest rates. How far these stresses spread in the US, and when and how they manifest themselves in Europe, remains to be seen.

Eurozone data generally surprised to the upside in April, although manufacturing remained weak and the divergence between the manufacturing and services sector further expanded. The European Central Bank is also expected to increase interest rates at their next meeting to address the continued wage pressures, particularly in the services sector.

In stock markets, value stocks modestly outperformed their growth counterparts. The UK and Europe's stronger economic sentiment and value tilt made them the strongest performing major equity markets over the month. Consumer Staples and Energy were the best performing sectors while Materials and Technology were the weakest in the global market.

#### Fund Review

The fund fell -1.6% amid signs of slowing demand in various cyclical sectors of the economy. This included semiconductors, manufacturing, and automotive, all of which are highly relevant for our strategy. The reporting season for the second quarter, which mostly falls in April, saw many companies reporting or anticipating short-term weakness. Many other stocks fell in sympathy despite maintaining their outlook.

As a result, we saw poor returns from our Resource Efficiency and Sustainable Transport themes, which are more sensitive and cyclically exposed. In Resource Efficiency, analogue semiconductor stocks **Silicon Labs** and **Power Integrations** were both weak. Silicon Labs guided to lower growth in the middle of this year; Power Integrations by contrast thinks that the worst of its cycle is behind it, but the stock still fell. Similar sentiments hit their more automotive-focused peer **Infineon**, in the Sustainable transport theme, despite remaining confident in its outlook.

Part of the reason for weaker demand experienced by these companies is easing supply chain conditions. This is good news in the longer term, for our strategy and the global economy generally. It should also help to bring down inflation. Combined with falling energy prices and the first signs of easing employment markets, this could signal a softening in interest rate expectations, which would be supportive for more growth-orientated stocks. That support was not enough to outweigh economic concerns in April.

While interest rates remain high, stresses are emerging in the financial sector, and particularly in regional banks in the USA. This perception of financial stress exacerbated negative sentiment in two other areas of the strategy.

The Cleaner Energy theme was weak, partly due to anticipated weakness in the solar residential market, which was caused by weaker consumer sentiment and rising interest rates. Micro-inverter maker **Enphase** fell on its results, as investors focused on this uncertainty. Close peer **SolarEdge** also fell but reported much more positive results after month end.

These concentrated areas of weakness were partially offset by strong contributions from stocks including Croda and HelloFresh. **Croda** benefited as hopes for a recovery in the consumer care sector were bolstered by positive comments from other companies in the sector. **HelloFresh** has performed well since the company hosted its Capital Markets Day at the end of March. Management provided more detail on the growing opportunity in ready-to-eat as well as reiterating the strengths of the core meal kit business. This was supported by results that beat expectations and confirmed full-year guidance.

Overall, Resource Efficiency and Cleaner Energy were the weakest themes during the month and the largest detractors from performance, while Environmental Services and Wellbeing were the strongest.

## Outlook

Sentiment remains cautious. Recent economic data been mixed, with particular uncertainty in the short term, and the US Federal Reserve has hinted that interest rate increases may slow from here in the wake of the issues in the banking sector. However, we have yet to see definitive signs of disinflationary traction.

Companies within the portfolio remain resilient in the current environment, and notably have limited exposure to the fallout of the banking collapses. While there is uncertainty in the short term, we remain confident in the long-term positioning of our holdings.

## Ozempic – Is Novo Nordisk’s diabetes and weight loss drug a miracle or a menace?

In a society riddled with low self-esteem and mental health issues, weight loss can be a controversial and difficult topic.

Pop culture and social media do more harm than good, often promoting unhealthy and inaccurate information. Kim K’s recent quest to fit into Marilyn Monroe’s crystal gown – in which she lost 16 pounds in 3 weeks – is a striking example of how celebrities spread damaging views to the masses.

Today’s celeb slimming method du jour is Ozempic. Ozempic is a medication sold by Novo Nordisk to treat patients with type 2 diabetes. It is the sister medication to Wegovy, a higher dose version which treats patients suffering with obesity. Both medications are brand names for semaglutide, a drug which manages patients’ blood glucose levels, reducing their appetite and helping them to feel fuller for longer.

The public reaction to Ozempic has been frenzied. Videos on TikTok tagged with #Ozempic have nearly 900 million views. Entertainment press is rife with rumours about which celebs are on the “miracle weight loss drug”. It was even used as a punchline by Jimmy Kimmel at this year’s Oscars.

Despite the controversy, it is our view that semaglutide has the potential for ground-breaking positive impact on public health.

Here's why.

### Obesity is a public health epidemic

According to the World Health Organization, around one in ten of the world's adults are obese<sup>1</sup>. The situation in America is particularly severe – nearly 75% of American adults, and one in five American children, are either overweight or obese<sup>2</sup>.

And this problem is only getting worse. According to the World Obesity Federation, more than a billion people around the world will be obese by 2030 – double the number there were in 2010<sup>3</sup>.

Obesity is generally not considered a disease. But it has been strongly linked to some very serious diseases. One meta-study found that obesity is significantly correlated with nearly all cardiovascular diseases and nearly all cancers<sup>4</sup>. Obesity can also impact a patient's mental health, increasing the risk of depressive and anxiety disorders, particularly among women<sup>5</sup>.

It is no surprise then that BMI (body mass index), a common gauge of obesity, is a strong predictor of mortality. A BMI of 30-35kg/m<sup>2</sup>, indicating obesity, has been found to take between two and four years off a patient's life, on average. For morbidly obese patients, this climbs as high as ten years<sup>6</sup>.

The impact of obesity on the public health system is also massive, particularly in America. By one estimate, the health care costs of obesity are responsible for nearly 21% of total health care spending in the US<sup>7</sup>.

### Diet or drugs?

Many believe that obese patients should be treated through education, diet, and lifestyle choices. The use of weight loss drugs can be controversial, mainly because patients may become permanently dependent on them to keep the pounds off.

Certainly, we agree that diet and lifestyle should be the first line of defence. In fact, our strategy invests in two companies which aim to systematically improve the population's diet.

[HelloFresh](#), the world's leading provider of meal kits, sells calorie and portion-controlled meals that are nutritionally balanced. DSM-Firmenich, a flavour and fragrances company, helps food companies reduce the amount of sugar they are using in consumer products – in 2022, the company removed two trillion calories from their customers' food<sup>8</sup>.

But the rising trend of obesity indicates that solutions like these alone are not enough.

This is where semaglutide comes in. Ozempic, the earlier version of the drug, is being prescribed off-label (or being misappropriated) for weight loss. Arguably, this shouldn't be happening. Wegovy, however, is a legitimate and effective weight loss therapy based on the same active ingredient. Wegovy has proven very effective in helping obese patients lose weight.

Used in combination with a reduced-calorie meal plan and increased physical activity, Wegovy patients have been shown to lose up to 20% more weight compared to those not taking the drug<sup>9</sup>. On average, patients lost 35lbs over the course of a 68-week study, compared to just 6lbs for those not on the drug.

This level of improvement could have a significant positive impact on patients' quality of lives and overall wellbeing. In our view, it clearly earns its place in modern medicine.

### **A note on responsible drug promotion**

Clearly, semaglutide should only be used to treat obese patients in a clinically responsible manner. It is not a 'quick fix' for people looking to shed a few pounds before their summer holiday.

We asked Novo Nordisk what they thought about the frenzy surrounding their drug. Their answer – 'We don't like it'. Novo Nordisk is closely monitoring all the publicity around Ozempic and Wegovy. They are also engaging with doctors and governments to help stem off-label prescription of Ozempic.

Diabetes patients will be relieved – the demand for Ozempic for weight loss was so great last year that actual diabetes sufferers couldn't get their hands on their medication<sup>10</sup>.

### **The diet starts tomorrow**

Semaglutide is undoubtedly a brilliant drug. But make no mistake – it is treating the symptom, not the cause. The West has a culture of over-consumption which is harmful to both people and planet.

Food has become abundantly available in many countries. Advertising, and public attitudes to food and body image, have become unhealthy and irresponsible. The agriculture industry is running in overdrive, struggling to feed a society that just keeps wanting more.

There is only one truly sustainable solution to obesity – we need to tackle our culture of over-consumption. And there is lots of work to be done.

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<sup>1</sup> <https://www.who.int/news-room/questions-and-answers/item/obesity-health-consequences-of-being-overweight#:~:text=Carrying%20extra%20fat%20leads%20to,premature%20death%20and%20substantial%20disability.>

<sup>2</sup> <https://www.nhlbi.nih.gov/health/overweight-and-obesity>

<sup>3</sup> [https://www.worldobesityday.org/assets/downloads/World\\_Obesity\\_Atlas\\_2022\\_WEB.pdf](https://www.worldobesityday.org/assets/downloads/World_Obesity_Atlas_2022_WEB.pdf)

<sup>4</sup> <https://link.springer.com/article/10.1186/1471-2458-9-88>

<sup>5</sup> <https://www.nature.com/articles/0803701>

<sup>6</sup> <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC4386197/>

<sup>7</sup> <https://www.hsph.harvard.edu/obesity-prevention-source/snapshot-of-obesity-related-costs/>

<sup>8</sup> [https://www.firmenich.com/sites/default/files/ESG\\_Report\\_FY22\\_2.pdf](https://www.firmenich.com/sites/default/files/ESG_Report_FY22_2.pdf)

<sup>9</sup> <https://www.wegovy.com/about-wegovy/weight-loss-with-wegovy.html>

<sup>10</sup> <https://www.nbcnews.com/health/health-news/people-diabetes-struggle-find-ozempic-soars-popularity-weight-loss-aid-rcna64916>

## FEATURES

APIR CODE	HHA0007AU
REDEMPTION PRICE	A\$ 1.4621
FEES *	Management Fee: 1.35%
MINIMUM INITIAL INVESTMENT	\$10,000
FUM AT MONTH END	A\$ 269.46m
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.

## PENGANA WHEB SUSTAINABLE IMPACT FUND

### PENGANA CAPITAL LIMITED

ABN 30 103 800 568

AFSL 226566

### CLIENT SERVICE

T: +61 2 8524 9900

F: +61 2 8524 9901

E: [clientservice@pengana.com](mailto:clientservice@pengana.com)



### PENGANA.COM

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