

**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.'

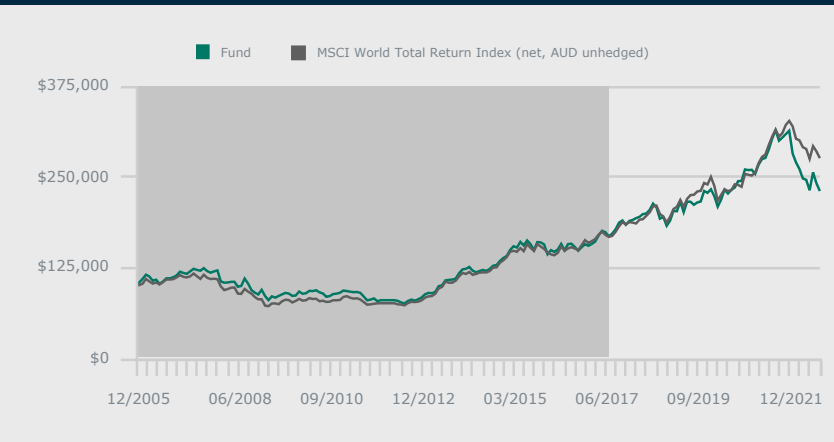
**PERFORMANCE TABLE**

NET PERFORMANCE FOR PERIODS ENDING 30 Sep 2022<sup>1</sup>

	1 MTH	1 YEAR	3 YEARS P.A.	5 YEARS P.A.	SINCE INCEPTION P.A.
WHEB Sustainable Impact Fund	-4.4%	-23.1%	2.4%	5.3%	
Strategy (partial simulation – see below)					5.1%
MSCI World Total Return Index (net, AUD unhedged)	-3.3%	-9.7%	6.2%	9.6%	6.2%

**PERFORMANCE CHART**

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



**TOP HOLDINGS (ALPHABETICALLY)**

Advanced Drainage Systems Inc	Industrials
Autodesk Inc	Information Technology
CSL	Health Care
Danaher	Health Care
Globus Medical Inc	Health Care
Infineon Technologies AG	Information Technology
Keyence	Information Technology
Silicon Laboratories INC	Information Technology
TE Connectivity	Information Technology
Thermo Fisher Scientific	Health Care

**SECTOR BREAKDOWN**

Consumer Discretionary	3.6%
Consumer Staples	1.9%
Health Care	29.8%
Industrials	22.8%
Information Technology	27.9%
Materials	12.1%
Cash	2%

**CAPITALISATION BREAKDOWN**

2-10bn	28.5%
10-20bn	28.2%
>20bn	41.3%
Cash	2%

**CUSTOM SECTOR BREAKDOWN**

Health	27.2%
Resource Efficiency	27.8%
Sustainable Transport	10.1%
Environmental Services	11.5%
Water Management	7%
Safety	2.2%
Cleaner Energy	4.7%
Wellbeing	5.9%
Education	1.5%
Cash	2%

**REGION BREAKDOWN**

North America	56%
Europe ex-UK	20.2%
Japan	9.5%
UK	7.4%
Asia Pacific	5%
Cash	2%

## THE UK: ALL CHANGE AT THE TOP

### COMMENTARY

In September we witnessed the death of Queen Elizabeth II and a change in political leadership in the UK. In this month's commentary we look at how this is expected to influence environmental action and the WHEB portfolio.

We are delighted to announce, Senior Analyst, Claire Jarvis has been shortlisted in both the 'Sustainable & ESG Investment Woman of the Year (small to medium firms)' and the 'Investment Analyst of the Year' categories at [Investment Week's Women in Investment Awards](#).

We are proud to be one of the 532 investor signatories of the [Investor Agenda](#), representing US \$39 trillion in assets, to have signed a statement advocating for governments to enact ambitious policies that would leverage the private capital required to effectively address the climate crisis.

Global equity markets were lower in September with the S&P500 posting its worst monthly performance since the beginning of the pandemic as worries over a looming recession intensified. These fears were compounded by aggressive policy tightening actions by global central banks. The US Federal Reserve aggressively raised interest rates faster than other central banks, pushing the dollar to its highest level in over 20 years. Russia's annexation of four regions of Ukraine and increasing energy security risks in Europe also weighed on stock markets. In the UK, radical fiscal proposals shocked investors and added to the negative global sentiment. Overall, the MSCI World Index fell -3.1%.

Our strategy underperformed the index this month, returning -4.6%. Strength in Environmental Services was offset by weakness in Resource Efficiency and Sustainable Transport.

Within Environmental Services, **Arcadis** performed well. It provides engineering and environmental services for buildings, infrastructure, and water businesses, with a focus on climate adaptation and sustainability. The company received overwhelming shareholders' support for the acquisition of IBI and closed the transaction in September. IBI is a global leader in the delivery of sustainable design, engineering, and consultancy solutions for natural and built assets. The acquisition provides a significant boost to Arcadis' digital capabilities, in line with its strategy of achieving digital leadership.

Within the Resource Efficiency theme, **Kion** was the biggest detractor. Kion is a leading German manufacturer of materials handling and automation equipment, helping its customers to reduce their energy and material footprint. Kion issued a profit warning this month, as a slowdown in ecommerce-related demand coincided with rising input costs. We are reviewing Kion's prospects for capturing growth in warehouse automation.

**Aptiv** and **TE Connectivity** were two major negative performers in the Sustainable Transport theme. Both are auto OEM suppliers, enabling the shift to electric vehicles. Aptiv provides advanced safety solutions and signal and power solutions. TE Connectivity provides electronic components used to improve fuel efficiency. While both companies continued to outgrow the auto market, their share prices were under pressure due to the sluggishness of auto production as a result of chip shortages. Despite this short-term supply chain disruption, we believe these two companies are well positioned to capture the growth of electric vehicles over the long term.

With the increasing risk of economic recession, we expect a more challenging business environment for cyclical sectors, particularly for the industrial sector where companies are hit by higher input prices and supply chain disruption. It may weigh on the performance of our Resource Efficiency theme which includes several industrial companies.

However, the energy crisis in Europe and the Inflation Reduction Act in the US also highlight a number of long-term investment opportunities. The importance and urgency of investing in renewable energy and energy efficiency technologies has never been higher. Many of our holdings are well-placed to benefit.

## The UK: All change at the top

As the nation simultaneously bid farewell to our strong female lead of the last 70 years and ushered in a new government, the UK is now entering a period of change. The new Prime Minister has already shown that she envisages a very different economic strategy to what we have seen over the past 25 years. The new King will no doubt also bring an agenda that will shape the country in new ways.

### Conservative governments and climate change

After 12 years of Conservative governments in the UK, [there have been some notable achievements in tackling climate change](#). The list, compiled by 39 environmentally aware Conservative MPs, includes:

- setting a world-leading net-zero target,
- supporting record levels of investment in renewables,
- decarbonising faster than any other major economy,
- announcing the phase-out of coal power stations,
- doubling international climate funding to £11.6bn, and,
- successfully bidding to host UN climate talks in Glasgow.

Going back further in party history, it was Margaret Thatcher who was first to acknowledge the need to address global warming in the 1980s. David Cameron later used his “vote blue, go green” slogan to signify the environment playing a key role in Conservative policy. Theresa May was largely consumed by Brexit during her premiership, but did commit the UK to achieving net zero carbon emissions by 2050.

Boris Johnson’s record on the environment [featured both good and bad elements](#). If, for the sake of this article, we focus on the good, we can include an offshore wind boom, fewer cars on the road in low-traffic neighbourhoods (initially in response to Covid-19) and a 2030 deadline for ending the sale of petrol and diesel cars. Whilst environmental targets were strong under Johnson, there weren’t necessarily the policies in place to achieve them.

So far, however, Liz Truss’ climate ambitions appear to represent a stark change in direction. With climate sceptic Jacob Rees-Mogg now in place as Secretary of State for Business, Energy and Industrial Strategy, fracking and North Sea oil and gas are firmly back on the agenda. This comes despite research from Rees-Mogg’s own department finding that [85% of people support the use of renewable energy and only 17% of people in support of fracking](#). It is perhaps worth reminding readers that our strategies have a relatively low level of exposure to the UK. In our global strategy, for example, this exposure is limited to just two companies: Croda International and Spirax-Sarco Engineering representing c.4% of the portfolio.

## Enter the Climate King

Meanwhile, new King Charles III has championed environmental action for over 50 years. He has been involved in projects and raised awareness of a multitude of issues from deforestation to pollution, sustainable agriculture to plastic waste. In some quarters, Charles has even been anointed as the '[climate king](#)'.

It is fair to say that [not everyone sees him this way](#). As with most celebrities, [the King's private jet use and views on population growth in the developing world run counter to his environmentalism](#). He has though shown genuine commitment to and passion for environmental issues. He has, for example, made significant changes in his personal life, including through his leadership on organic farming and sustainable land use and by eating less meat and dairy. It's hard to imagine these topics not coming up during state visits from international dignitaries. Equally, as someone who sees the climate crisis as an existential threat, how could it not be raised at least occasionally during his weekly meetings with the Prime Minister? The alignment of the Conservative party with the monarchy may even make these issues and conversations more accepted. His change in profile also opens the way for Prince William to pick up his charity work in an area he has already shown an interest in with the launch of the '[Earthshot Prize in 2021](#)'.

## A tide of change

Whatever the dynamic between King Charles and Liz Truss, it comes at a crucial time in terms of the climate crisis. With just a few months until COP27, we certainly hope that the UK continues to pursue a leading role.

Domestically too, we think that the journey to net zero will remain intact. The main opposition parties look set to keep the Government's feet to the fire on this issue. Moreover, key technologies such as electric vehicles and renewable power have reached, or are already past, tipping points of mass adoption from which there is [no return to the fossil fuel alternatives](#). In the words of Greta Thunberg "Change is coming, whether you like it or not". We hope she is right.

## FEATURES

APIR CODE	HHA0007AU
REDEMPTION PRICE	A\$ 1.2673
FEES *	Management Fee: 1.35%
MINIMUM INITIAL INVESTMENT	\$10,000
FUM AT MONTH END	A\$ 234.15m
FUND INCEPTION DATE	31 October 2007

## FUND MANAGERS



**Ted Franks**  
Partner, Fund Manager



**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. Past performance is not a reliable indicator of future performance. The value of the investment can go up or down.

2. The Fund inceptioned 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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