MONTHLY REPORT
NOVEMBER 2022

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.'

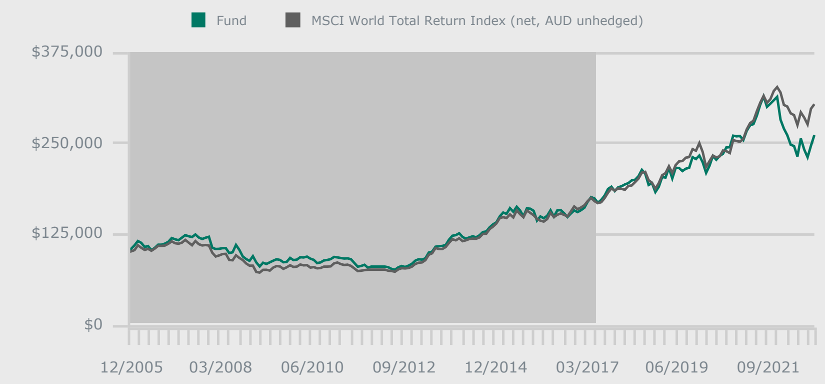
PERFORMANCE TABLE

NET PERFORMANCE FOR PERIODS ENDING 30 Nov 2022[1]

	1 MTH	1 YEAR	3 YEARS P.A.	5 YEARS P.A.	SINCE INCEPTION P.A.
WHEB Sustainable Impact Fund	5.9%	-15.5%	4.2%	6.5%	
Strategy (partial simulation – see below)					5.8%
MSCI World Total Return Index (net, AUD unhedged)	2.1%	-5.6%	7.9%	10.1%	6.8%

PERFORMANCE CHART

NET PERFORMANCE SINCE INCEPTION[2]



TOP HOLDINGS (ALPHABETICALLY)

Advanced Drainage Systems Inc	Industrials
Ansys	Information Technology
Danaher	Health Care
Globus Medical Inc	Health Care
Icon	Health Care
Linde	Materials
Power Integrations Inc	Information Technology
Silicon Laboratories INC	Information Technology
Steris	Health Care
Trane Technologies PLC	Industrials

SECTOR BREAKDOWN

Consumer Discretionary	4.1%
Consumer Staples	2%
Health Care	31.1%
Industrials	22.6%
Information Technology	27.2%
Materials	11.8%
Cash	1.2%

CAPITALISATION BREAKDOWN

2-10bn	29.9%
10-20bn	21.3%
>20bn	47.6%
Cash	1.2%

CUSTOM SECTOR BREAKDOWN

Health	24.9%
Resource Efficiency	24.9%
Sustainable Transport	10.2%
Environmental Services	11.4%
Water Management	7.6%
Safety	5.7%
Cleaner Energy	5.9%
Wellbeing	6.4%
Education	1.8%
Cash	1.2%

REGION BREAKDOWN

North America	57%
Europe ex-UK	21.6%
Japan	7.2%
UK	7.3%
Asia Pacific	5.7%
Cash	1.2%

COP27 – MORE OF A FLOOR THAN A CEILING

COMMENTARY

Global equities experienced their first back-to-back monthly gains since the start of 2022, as investors bet that inflation has peaked and that the US Federal Reserve will slow the pace of monetary tightening. The Fund outperformed the benchmark over the month, which respectively returned +5.9% and +2.1%. In this month's commentary, Seb Beloe looks at whether there is any scope for optimism following the recently concluded COP27 climate negotiation.

We recently held a Portfolio and Investment Update webinar, along with Q&A for shareholders, which is available below for your review. CPD points are applicable for Australian Financial Planners HERE.

Market Review

Global equities experienced their first back-to-back monthly gains since the start of 2022, as investors bet that inflation has peaked and that the US Federal Reserve will slow the pace of monetary tightening.

Remarks from the Federal Reserve chair Jay Powell, signalling that the US central bank would slow the pace of interest rate rises in December, delivered a boost for markets on the last day of the month. The Fed is now expected to raise interest rates by 0.5% rather than 0.75% at its December meeting.

The European equity market fared better this month. Greater fiscal support from governments and a mild autumn have helped to ensure gas storage facilities are still at full capacity, improving the region's economic outlook.

There was also investor optimism that China will begin to ease its strict zero-Covid policies that have held back economic growth.

The rally has been cyclical in nature with Industrial & Material stocks performing particularly well. Value outperformed growth.

Fund Review

The Fund outperformed the benchmark over the month, which respectively returned +5.9% and +2.1%.

Health, Sustainable Transport and Cleaner Energy were the best performing themes.

Infineon Technologies was the best performing stock. The company makes efficient power semiconductors with a market-leading position in the automotive end-market. The company updated its long-term operating targets, upgrading both sales and margin expectations.

Solar Edge, Fisher and Paykel and Silicon Labs also performed well.

The strategy, which only invests in companies providing solutions to sustainability challenges, does not hold certain mega-cap technology stocks including Apple, Tesla & Amazon – this was a tailwind for performance. For the same reason, the strategy does not invest in Financials and this underweight was a headwind.

Our mid-cap bias was supportive for performance as was the investment team's stock selection.

Outlook

Overall, the earnings season has highlighted pockets of weakening demand. We are also seeing attention start to turn to 2023, where companies are generally flagging a lack of visibility on growth rates as we come out of the post-Covid recovery period. Interest rate expectations are coming down, although there is likely to be continued volatility as winter approaches and the market continues to feel the effects of the energy crisis.

The portfolio is unlikely to be immune to the industrial and consumer demand environments. However, we are confident our holdings are well positioned to capture the impact-driven growth opportunities in their industries over the longer-term.

COP27 – more of a floor than a ceiling

So Rishi Sunak did eventually bow to pressure and join other world leaders at the second most attended climate negotiations of all time. But as global attention now drifts across the Arabian Peninsula from Sharm El-Sheikh to Qatar, what was ultimately achieved at this year's climate talks?

Some important steps forward

There were clearly some important successes that came out of the COP27 negotiations including, most obviously, the establishment of a 'Loss and Damage' fund. This looked impossible just a few years ago, but perhaps spurred by the appalling flood damage in Pakistan and Nigeria, delegates did commit to establish a pooled fund to support action in countries most affected by climate change. Key operational decisions such as what criteria triggers a payout, and the size and source of contributions, will be hammered out between now and the end of COP28. The fact that developed countries still haven't fulfilled previous commitments to provide US$100bn a year to help developing countries clearly doesn't bode well. A recent report also indicated that these countries will likely need as much as US$1 trillion per annum.

There were other good things as well. China and the US are again formally talking about how to galvanise global support for more aggressive action and 'Brazil is back' with President-elect Lula committing to reversing damage to the Amazon rainforest.

Improved targets

There were even some increased commitments. The EU managed to eke out a 2% increase in the ambition of its 2030 emission reductions target and Mexico raised its target – albeit against a 'business as usual' scenario – from 22% to 35% and even offered to extend this to a 40% cut by 2030 contingent on international support.

Following on from the US$8.5bn deal struck in Glasgow to finance the early retirement of coal power plants in South Africa, Indonesia also announced a US$20bn deal to accelerate the retirement of their own coal plants. This will ensure a peaking of Indonesian power sector emissions by 2030 and net zero carbon emissions by 2040 – a decade earlier than the previous deadline. Vietnam is reported to be the next in the queue for a similar type of deal.

Disappointment and missed opportunities

And yet, the overall mood at the end of the conference was still of disappointment. Alok Sharma, the UK's outgoing President of COP was visibly angry as the session came to an end. "Emissions peaking before 2025 as the science tells us is necessary? Not in this text. Clear follow-through on the phase-down of coal? Not in this text. Clear commitment to phase out all fossil fuels? Not in this text", he protested.

These objectives were supported by over eighty countries at the talks but were ultimately left out of the final agreement. What's more, new language was included that emphasised the role of 'low carbon energy'. A term widely understood to represent an effort to include support for natural gas in future emission reduction initiatives. Many commentators pointed the finger at the army of fossil-fuel lobbyists at the talks.

A floor not a ceiling

Ultimately though, the COP process should not be seen as setting a ceiling for ambition on climate, but rather as a floor. With 192 countries required to agree unanimously on the outcome the bar is set quite low and, notwithstanding the emotional scenes in Paris in 2015, it is rarely sensible to look to the COP process for hope. There is still scope for optimism, but for that you are better off looking at the actions of leading businesses, cities, communities… and investors. These groups have become not just powerful advocates for change, but also agents for real progress on the ground.

FEATURES

APIR CODE	HHA0007AU
REDEMPTION PRICE	A$ 1.4345
FEES *	Management Fee: 1.35%
MINIMUM INITIAL INVESTMENT	$10,000
FUM AT MONTH END	A$ 268.1m
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. 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 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.

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