MONTHLY REPORT
NOVEMBER 2023

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.'

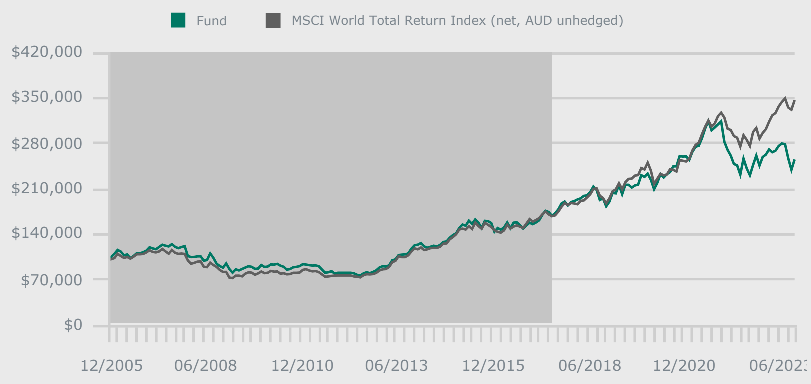
PERFORMANCE TABLE

NET PERFORMANCE FOR PERIODS ENDING 30 Nov 2023[1]

	1 MTH	1 YEAR	3 YEARS P.A.	5 YEARS P.A.	SINCE INCEPTION P.A.
WHEB Sustainable Impact Fund	6.7%	-2.3%	-0.7%	5.5%	
Strategy (partial simulation – see below)					5.4%
MSCI World Total Return Index (net, AUD unhedged)	4.4%	14.1%	10.9%	12.1%	7.2%

PERFORMANCE CHART

NET PERFORMANCE SINCE INCEPTION[2]



TOP HOLDINGS (ALPHABETICALLY)

Agilent Technologies Inc	Health Care
Autodesk Inc	Information Technology
CSL Ltd	Health Care
Ecolab Inc	Materials
ICON PLC	Health Care
Keyence Corp	Information Technology
Linde PLC	Materials
MSA Safety Inc	Industrials
Thermo Fisher Scientific Inc	Health Care
Xylem Inc/NY	Industrials

SECTOR BREAKDOWN

Consumer Discretionary	3.4%
Health Care	30%
Industrials	29.5%
Information Technology	24%
Materials	12.6%
Cash	0.5%

CAPITALISATION BREAKDOWN

2-10bn	29.8%
10-20bn	12.2%
>20bn	57.6%
Cash	0.5%

CUSTOM SECTOR BREAKDOWN

Health	26.7%
Resource Efficiency	27.1%
Sustainable Transport	7.6%
Environmental Services	12.6%
Water Management	11.2%
Safety	7.6%
Cleaner Energy	3%
Wellbeing	1.7%
Education	2%
Cash	0.5%

REGION BREAKDOWN

North America	45.8%
Europe ex-UK	30.5%
Japan	6.5%
UK	10.5%
Asia Pacific	6.3%
Cash	0.5%

THREE REASONS WHY THE SUSTAINABILITY DISCLOSURE REQUIREMENTS REALLY MATTERS

COMMENTARY

After a difficult three months, November provided some relief for investors with the MSCI World rising 4.4%. The gains came following data suggesting that inflation is easing across developed markets. With the Fund gaining 6.7%, we believe this environment should be more supportive for the mid-cap and growth-orientated impact stocks we invest in.

The UK Financial Conduct Authority recently published its 'Sustainability Disclosure Requirements (SDR) and investment labels' policy statement. As Seb Beloe discusses in this month's commentary, it is not an overstatement to say that the SDR will fundamentally change the sustainability investment market in the UK, with its impact likely to affect many other jurisdictions including Australia as they establish their own frameworks for regulating sustainability investments.

After a difficult three months, November provided some relief for investors with the MSCI World rising 4.4%. The gains came following data suggesting that inflation is easing across developed markets. If this is true it will support the view that central banks have reached the peak of their monetary policy tightening cycles. Matching this optimism, the VIX volatility index (which is considered a reflection of investor sentiment) was at its lowest level since before the pandemic. In global equities markets, Technology was the best performing sector while Energy was the weakest.

The Fund delivered a significant positive return during the month of 6.7%. From a thematic perspective, Health and Resource Efficiency were the largest positive contributors with several holdings performing well. Agilent, a life sciences company, was a major positive contributor. It posted better-than-expected results and saw signs of stabilisation in order growth.

The largest individual stock contributor was actually from Sustainable Transport, with semiconductor manufacturer Infineon rising after management provided a positive view on growth prospects. During the month, we exited our position in HelloFresh. The company continues to struggle, issuing a profit warning only three weeks after their latest results, which further damaged our confidence in management.

Following the fall in inflation, sentiment in global equities is more positive with markets hoping that the current tightening phase has come to an end. This environment should be more supportive of the mid-cap and growth-orientated impact stocks we invest in. Our faith in the sustainability-led growth drivers and competitive advantages of the companies themselves is as strong as ever.

Three reasons why SDR really matters

Almost a year after the second consultation period closed and two years since the original discussion paper, the Financial Conduct Authority (FCA) has finally published its 'Sustainability Disclosure Requirements (SDR) and investment labels' policy statement. It had been rumoured that the FCA was toying with the idea of playing Santa Claus by launching the policy on Christmas Eve. In the end, however, and perhaps in anticipation of the COP28 negotiations in Dubai (or even to coincide with the morning of WHEB's own annual investor conference) the policy 'dropped' on the 28th of November.

After skimming the 200 odd pages of the policy statement, our overwhelming reaction at WHEB was one of relief. As avowed impact investors, the FCA's original framing of the 'Sustainability Impact' label was deeply problematic. The final policy statement however has addressed many of the most contentious points and our intention will be to adopt the Sustainability Impact label at the first opportunity for all our in-scope funds.

It is not an overstatement to say that the SDR will fundamentally change the sustainability investment market in the UK, which will undoubtedly guide policy makers in other jurisdictions. In this regard, we feel that it is prudent for Australian investors to have at least a basic understanding of this regulation as it is likely to influence the Australian Sustainable Finance Strategy Several organisations have already produced very useful summaries of the detailed policies in the statement. But beyond the details, we believe the SDR will have three strategic impacts. These will affect not just the UK market but many other jurisdictions as they establish their own frameworks for regulating sustainability investments.

Maturing of the market

The most visible change that SDR will bring is a clear differentiation in the market. Over the decades that sustainability investing has developed, distinct approaches have emerged. The SDR formally recognises these different approaches by providing specific labels for the three main variants: 'Sustainability Improvers', 'Sustainability Focus', and 'Sustainability Impact'. A fourth 'Sustainability Mixed Goals' has also been included in the final policy covering hybrid funds that offer a mix of the other three.

This differentiation will have a profound impact on the market. Conflating these distinct approaches under generic terms like ESG has for many years confused consumers and created space for greenwashing. The formal endorsement by the regulator of these distinct approaches now gives each a legitimate place in the market and will, we believe, enable each to develop further in meeting specific client needs.

Additionality and causality out, intentionality in

We remain convinced that the narrow concept of additionality as applied to the investors' contribution in impact is deeply problematic and misses the systemic nature of markets. WHEB have been strong advocates for limiting the importance of additionality in the Sustainability Impact label.

The final policy statement has moved significantly in this direction. For example, while the importance of 'new' capital in impact investment is still recognised, critically the policy statement no longer makes it the defining feature of the Sustainability Impact label. Instead, the policy replaces 'additionality' as the defining characteristic with requirements to demonstrate investment 'intentionality' and provide a corresponding 'theory of change' along with measurable indicators of impact.

The requirement to demonstrate 'causality' between engagement activities and outcomes has also been removed. It is extremely rare – and probably not even desirable – that companies adapt policies and performance on issues at the behest of a single investor. Instead, the policy now requires detailed reporting on the intentionality of engagement alongside any associated outcomes.

Balancing principles and prescription

We believe that one of the key weaknesses of the European Union's Sustainable Finance Disclosures Regulation (SFDR) is that it is overly prescriptive in mandating the reporting of specific KPIs. These are often irrelevant to the assets that are held and result in meaningless and sometimes even misleading reporting.

The FCA does a much better job of avoiding this debilitating level of prescription. The principles underpinning the SDR statement are directly linked to the FCA's obligations to the consumer. Labelled products are required to meet 'general criteria' that include setting out the sustainability objective of the product and establishing key performance indicators (KPIs) that the fund needs to report against. Each label then has additional 'specific criteria' that products need to comply with such as reporting a theory of change for Sustainability Impact products.

Critically though, and in stark contrast to the SFDR, the detail of the strategy, and the KPIs that are selected, are left to the fund manager to define. This avoids the top-down prescription that has been so painful for the industry and so unhelpful to consumers.

The future of sustainability investment regulation

The SDR is not finished, and it is also not perfect. Discretionary wealth managers still must wait until 2024 to receive proposals governing their activities. We were disappointed to see a 70% threshold applied as the qualifying hurdle for each of the three original labels (we think it should be higher). We have also called publicly for asset managers to disclose all their holdings. We hope that the FCA might make this a requirement as the regulation evolves.

Nonetheless, we see the policy statement and the principles on which it is based as a hugely positive step forward. This is the first major piece of FCA regulation on sustainability investment and in our view will help underpin trust and support authenticity in sustainability fund management.

Regulators all around the world are reviewing their own approaches to the regulation of sustainability investing. We very much hope that they take note of the approach used by the UK and replicate it in their own policy making.

It has taken a long time to get here. It has been worth the wait.

FEATURES

APIR CODE	HHA0007AU
REDEMPTION PRICE	A$ 1.4012
FEES *	Management Fee: 1.35%
MINIMUM INITIAL INVESTMENT	$10,000
FUM AT MONTH END	A$ 245.19m
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 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.

PENGANA WHEB SUSTAINABLE IMPACT FUND

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